



# NEPAL PUBLIC FINANCIAL MANAGEMENT MULTI-DONOR TRUST FUND

PROGRESS REPORT | July - December 2017

## Nepal Public Financial Management Multi-Donor Trust Fund

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# ACKNOWLEDGMENTS

This progress report has been prepared by Franck Bessette, Shraddha Shah and Nagendra Nakarmi, on behalf of the World Bank as MDTF Administrator. The report includes inputs and guidance from the MDTF task teams (Anjalee Thakali). The MDTF management and team is especially grateful to the PEFA Secretariat Nepal for their continued support.

# ABBREVIATIONS AND ACRONYMS

BER	Budget Execution Report
CAAT	Computer-Aided Audit Techniques
CIAA	Commission for the Investigation of Abuse of Authority
CSO	Civil Society Organization
EWP	Electronic Working Paper
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GESI	Gender Equity and Social Inclusion
ICAN	Institute of Chartered Accountants of Nepal
ICGFM	International Consortium of Government Financial Management
ICR	Implementation completion report
IFRS	International Financial Reporting Standard
IPSAS	International Public Sector Accounting Standard
IPFMRP2	Integrated Public Financial Management Reform Plan 2
ISSAI	International Standard of Supreme Audit Institutions
IT	Information Technology
LMBIS	Line Ministry Budget Information System
M&E	Monitoring and Evaluation
MDTF	Multi-Donor Trust Fund
MoFALD	Ministry of Federal And Local Development
MTBF	Medium-Term Budget Framework
MTEF	Medium-Term Expenditure Framework
NAMS	National Accounting and Management Service
NFRS	Nepal Financial Reporting Standard
NPSAS	Nepal Public Sector Accounting Standard
OAGN	Office of the Auditor General (of Nepal)
OPCS	Operation Policy and Country Services
PAC	Public Accounts Committee
PCC	Program Coordination Committee
PEFA	Public Expenditure Financial Accountability
PFM	Public Financial Management
PRAN	Program for Accountability in Nepal
RMIS	Revenue Management Information System
SAI	Supreme Audit Institution
SOAG	Strengthening the Office of Auditor General of Nepal (Project)
SPFM	Strengthening PFM System (Project)
TSA	Treasury Single Account
USAID	United States Agency for International Development
VDC	Village Development Committee

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# FOREWORD

The last six months of 2017 have been a crucial time for the exercise of democracy in Nepal. **Provincial assembly elections** were held on 26 November and 7 December 2017 along with the **legislative elections**. The elections were part of Nepal's transformation to a federal republic. These elections, completing previous ones at the local level, paved the way for a change in leadership and a new government to be formed in February 2018.

**For Nepal PFM MDTF this time has been used for deepening the preparation of the Integrated PFM project (IPFMP).** Two missions took place during this time, from July 17 to 27 and November 6 – 10, 2017. The main objectives of the missions were: (i) to assess project readiness including by reviewing the adequacy of staffing and mapping of the PEFA Secretariat, the Project Procurement Strategy for Development (PPSD) and procurement plans for the first 18 months of procurements; and (ii) finalize the detailed design of all project components, results framework and implementation arrangements and join the PEFA Secretariat in its effort to build efficient implementation mechanisms and coordination habits between the various stakeholders of the project, FCGO, MoF, OAG and PPMO in particular and beyond the Parliament, the NPC and so on. This IPFMP clearly supports the new federal structure and a working collaboration with the provincial and local levels of government will have to be invented. The inclusion of sub-national PFM aspects in the National PFM Reform Plan which is one of the activities of the project, could be an opportunity to do so.

**This IPFMP is breaking grounds in several ways.** First, it is the first time that a PFM project under the MDTF is co-financed by the MDTF and by government's budget. Out of 18 M\$, the government is providing 3M\$, 20% of the total. Second, it is the first time that the MDTF is financing an operation that is above 5M\$ and with a substantial increase in the complexity. The MoF is taking concrete steps to make sure the project management unit (PEFA

Secretariat) can raise to this challenge. Finally, the IPFMP embraces the entire PFM sphere to support the integrated agenda of the government and ventures into new areas for the MDTF, including tax administration or sub-national PFM for instance.

**The IPFMP does not exhaust the list of priorities defined by the government** and a difficult prioritization and selection process had to be conducted to limit the intervention to the resources available at the time of project approval. This being said, several donor partners have already manifested their intention to contribute to the project at a later stage and therefore the IPFMP team is already consulting with government to prepare an additional financing as soon as additional funding becomes available, and provided implementation of the parent project is moving smoothly.

**The PFM MDTF has also undergone scrutiny of its previous and current performance and management.** An Implementation Completion Review (ICR) of the SPFM I and II projects was conducted by a Bank team in close partnership with the PEFA Secretariat. The findings of this evaluation are quite positive in terms of the results achieved and the experience gained. They are summarized in this report. In addition, a team of auditors mandated by the EU has conducted a thorough financial audit of the MDTF starting in August, and to which the entire MDTF team has contributed (special thanks to Nagendra, Shraddha, Pragya and Shreeram). We are looking forward to the results.

**The Bank has also prepared a Fiscal and PFM Development Policy Credit which is a 200 M\$ budget support operation.** This operation is independent from the MDTF but addresses a number of policy level PFM reforms that will be key to establish a coherent PFM framework in the new federal context. The DPC has built on the previous achievements of the MDTF as the presentation in this report will make obvious. This operation will support

the government of Nepal in its efforts to establish a framework to move towards fiscal federalism and improve public financial management. The proposed operation for US\$ 200 million is the first in a programmatic series of two operations and is being fully financed from the Risk Mitigation Resources (RMR) window of IDA. The operation has been approved by the Executive Board of the World Bank on 20 March.

Initial **pledges** of DFID, Norway and USAID to the MDTF have been materialized through the signature of supplemental administrative agreements and the first call of funds. Australian DFAT has recently informed me of its intention to pledge an additional contribution to the pool. On behalf of MDTF partners, I warmly welcome this additional support.

**Franck Bessette**  
Program Manager, Nepal PFM MDTF

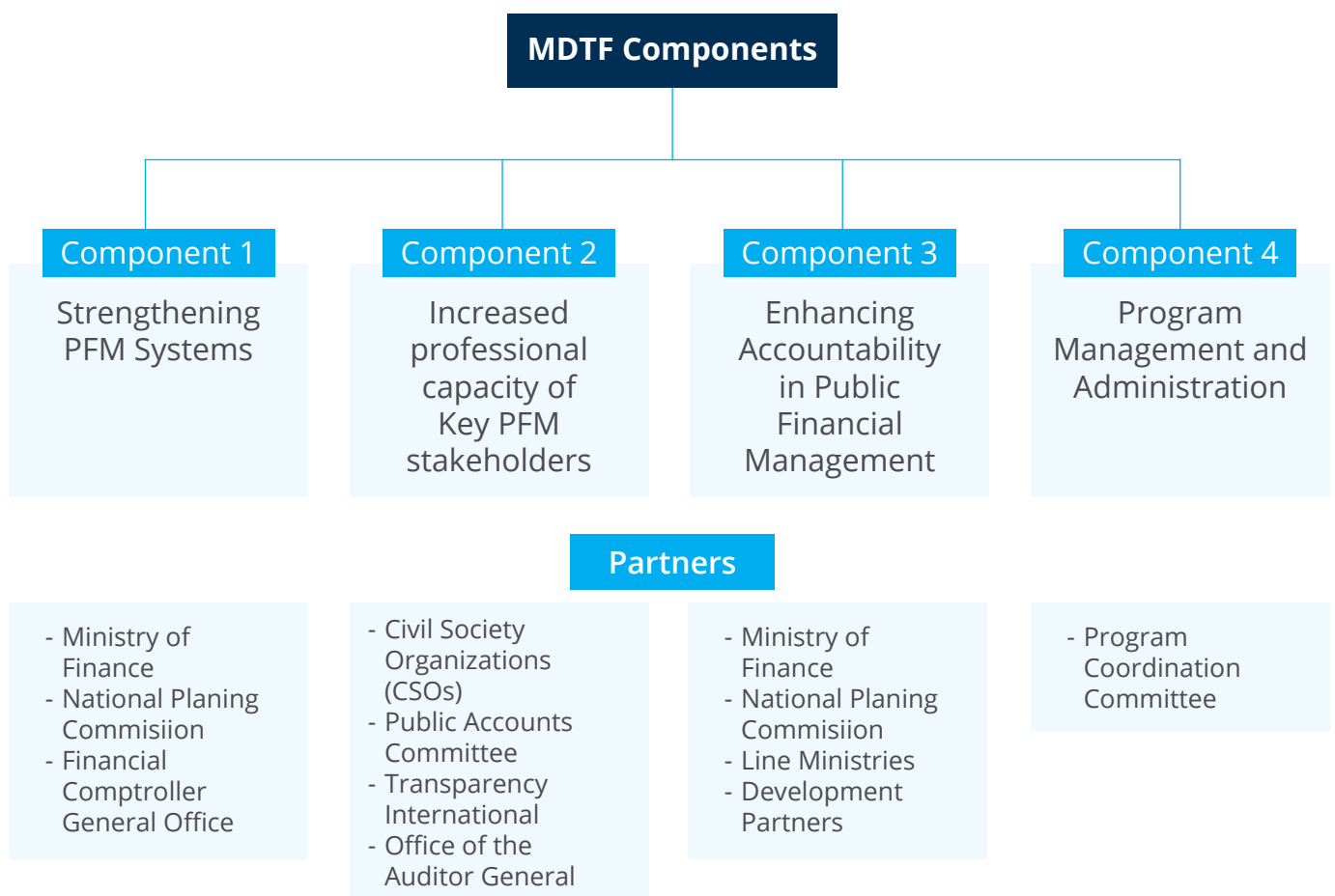


# INTRODUCTION

## The MDTF Phase II

The MDTF Phase II supports the higher level objectives defined in the Public Financial Management Reform Plan 2 (IPFMRP2) but focuses on what is achievable in the shorter term and on selected areas where the MDTF can have more impact. The program is expected to target three high level outcomes to be achieved towards end of 2020. These high level outcomes will be broken down into specific outcomes and then further into project/ activity level objectives.

Figure 1: MDTF Components





# PART I

## ICR for SPFM I and II

Implementation Completion and Results reports (ICRs) are an integral part of the World Bank's drive to increase development effectiveness, through a continuous process of self-evaluation, lesson learning and application, sharing of knowledge, and being accountable for results. The lessons learned from ICRs improve the quality and effectiveness of Bank loans/credits, especially for follow-on operations. The core ICR is prepared to satisfy accountability needs and provide lessons from completed operations. The ICR is typically sent to IEG which is the Bank's auditing unit. The Independent Evaluation Group (IEG) evaluates the development effectiveness of the World Bank Group. This work provides evaluative evidence to help the World Bank Group deliver better services and results to its clients. They do so by generating lessons from past experience and accountability to shareholders and stakeholders at large. IEG is independent of the Management of the World Bank Group and reports directly to the Executive Board.

After the ICR of the Office of Auditor General Project, completed last semester, the ICR for Nepal Strengthening Public Financial Management (SPFM I and II) was also jointly prepared in 2017. The key achievements of Phase 1 (SPFM-I) were to implement a Treasury Single Account (TSA) across all 75 districts, which meant (a) closure of 14,300 government bank accounts; (b) huge savings in interest; (c) automation of the budgeting and execution of all government expenditures through a customized application (also called TSA); and (d) availability of financial reports on a real-time basis. This reform involved significant behavioral change of government staff to give up their cheque-writing authority in favor of a centralized treasury operation. Similar initiatives have taken 6-7 years in several countries – but Nepal achieved this in three years.

SPFM II continued along the same path by supporting and consolidating the TSA fund and system rollout, with major emphasis on enhancements, such as commitment control and revenue management. The second phase also helped the government to upgrade the information technology (IT) infrastructure for enhanced sustainability, security and efficiency of the TSA system. The system has evolved over time and provides read-only access to the line ministries and auditors through web-enabled portals. This real-time information has facilitated the funds allocation, re-appropriation, and spending decisions. Finally, 31 central ministries (out of 34- to be verified with Public Expenditure and Financial Accountability (PEFA)) now prepare annual financial statements compliant with Nepal Public Sector Accounting Standards (NPSAS).

Key challenges involved the limitations related to the PFM reforms governance structure and in-house IT capacity, retention of parallel manual records, and fragmentation in donor support for PFM reforms. In addition, issues persist in relation to fragmentation of IT systems – there are many stand-alone systems that are used in a non-integrated mode to carry out core financial management functions. The lack of an integrated automated PFM system creates several issues including the lack of ex-ante commitment control and delays in bank reconciliation, hence acting as an impediment in enhancing financial reporting. While the PEFA Secretariat was instrumental in successful development, implementation, and maintenance of the TSA systems and service delivery by the 75 District Treasury Controller Offices (DTCOs); it lacked the requisite coordination and convening ability for PFM reform activities led by the Office of the Auditor General, Ministry of Finance, National Planning Commission, and Public Procurement Monitoring Office,

etc. Similarly, a frequent staff rotation did not ensure the development and retention of specialized skills required for such a complex IT dependent reform program. Thus, there is a heavy reliance on IT consultants, and own IT capacity of the Financial Comptroller General Office (FCGO) continues to be insufficient to timely support the functional as well as technical evolution of the TSA system. Furthermore, it is crucial to phase-out the parallel maintenance of manual records. As the initial phases of the PFM reforms have primarily hinged on the fiscal discipline and financial control objectives, the focus on the allocational and operational efficiency has been minimal. Finally, there has been fragmentation in donor support to PFM reforms; for example, a Multi-Donor Trust Fund (MDTF) donor is also supporting similar activities outside the MDTF with sub-optimal level of integration and uniformity of approach.

Going forward, it is imperative for PFM reforms to emphasize the efficiencies for service delivery (value-for-money). There are significant opportunities to take the TSA system to budget-holders through web-enabled access

via desktops (Computerized Government Accounting System (CGAS) being developed) and/or a mobile application, allowing on-line submission of payment bills and scanned images of supporting documents. This, together with online bank-transfers, will eliminate the budget-holders' visits to treasury offices, while enhancing the process integrity. Similarly, supporting the ongoing decentralization by developing necessary functionality in the TSA system will be pivotal in mitigating significant financial risks and ensuring strengthened fiscal discipline and internal controls for all levels of government. The issue of disintegrated IT systems on financial management, can be addressed through the development of an integrated Financial Management Information System (FMIS). PFM reforms should also consider the inefficient use of capital resources and weak governance of State-Owned Enterprises, while ensuring that their financial statements are available to facilitate better oversight of fiscal risks.

## Nepal First Programmatic Fiscal and Public Financial Management (PFM) Development Policy Credit

**The Bank negotiated with government and approved 20 March a budget support operation of 200 MUS\$ to support the government of Nepal in its efforts to establish a framework to move towards fiscal federalism and improve public financial management.**

This operation builds on prior analytical work, on-going Public Financial Management (PFM) activities and assistance to the government in fiscal devolution. The main development challenges faced by the country include fragility stemming from limited government capacity, political instability, as well as natural disaster related risks. The country had nine governments over the past 10 years and was hit by three large exogenous shocks in the past three years: earthquake (2015), trade blockade

with India (2016) and floods (2017). These shocks have adversely impacted the government's fiscal stance, among others. The proposed operation for US\$ 200 million is the first in a programmatic series of two operations and is being fully financed from the Risk Mitigation Resources (RMR) window of the World Bank. The main risks to the operation arise from political vulnerabilities, stakeholder risks and weak institutional capacity. **The project development objectives of the operation are** 1) Ensuring fiscal prudence with sustainable debt level while increasing public investment in view of infrastructure deficit challenges. 2) Improving sectorial composition of spending and budget execution. 3) Increase administration efficiency; harmonize tax codes and increase revenue potential while laying down fiscal devolution framework.

**One of the key objectives of this transition is to increase efficiency and expansion of the delivery of basic services.** Local governments will deliver basic services like education, health, local transport, and water and sanitation. Until now all these services were provided by the central government through line ministries, which resulted in limited access to basic services in certain parts of the country, such as far and mid-western regions and inner

Terai, in part due to challenges related to the geography of the country. The quality of service provision had also deteriorated over the years, for example, unavailability of medicine and trained staff, teachers' absenteeism, lack of sufficient maintenance funds leading to breakdown of existing water supply systems, and local roads access limited to the dry season only.

## POLICY AND RESULTS MATRIX

Prior Actions under DPC 1 (2018)	Triggers for DPC 2 (2019)	RESULTS INDICATORS Baseline: FY2016 and Target: FY2020 (unless otherwise mentioned)
Pillar One: Establish a framework to move towards fiscal federalism		
<b>Prior Action 1:</b> To implement fiscal federalism the Parliament has approved the Intergovernmental Fiscal Arrangement Act which provides the legal framework for resource allocation among the three tiers of government.	<b>Trigger 1:</b> The Parliament has approved the Federal Financial Procedures Bill which provides guidance on budget execution (Cabinet Approval/ CA-2017).	Expenditure on public primary education: Baseline: Undertaken by the federal government (FY2016) Target: Fully undertaken by the local governments (FY2019)  Spending of all three tiers of the government is as per the Federal Financial Procedural Act: Baseline: Not applicable Target: Expenditure as per norms in the FFPA
<b>Prior Action 2:</b> The Parliament has approved the Local Government Operations Act- 2017, which will govern the operation and management of local governments.	<b>Trigger 2:</b> Local governments have (i) Established the Local Consolidated Fund; and (ii) issued regulations to authorize the Chief Administrative Office to initiate spending within seven days of approval of the annual budget by the local assembly.	Spending of local governments as per Local Government Operations Act. Baseline: Not applicable Target: Expenditure as per the norms in the LGM Act.
<b>Prior Action 3:</b> The Parliament has approved the National Natural Resources and Fiscal Commission Bill which will govern federal transfers to state and local governments.	<b>Trigger 3:</b> The National Natural Resources and Fiscal Commission has (i) adopted the framework for the calculation and devolution of two grants (equalization and conditional) and has made the formula for the equalization grant public; and (ii) issued climate resilient investment guidelines to the sub national governments.	Equalization grant in FY19 budget made as per the new equalization formula: Baseline: NA (FY16) Target: To all local governments
<b>Prior Action 4:</b> The National Women Commission has adopted an integrated platform that provides a comprehensive response system and coordinates and expands access to services for Gender Based Violence cases.	<b>Trigger 4:</b> National Women Commission has (i) established a 24 hour Helpline manned by trained staff; (ii) established a case processing system to track service provision; and, (iii) issued protocols and guidelines for survivor support, case prioritization and service access.	Share of service referrals (legal, health, police and shelter homes) on Gender Based Violence cases that are closed. Baseline: None Target: 80 percent

Prior Actions under DPC 1 (2018)	Triggers for DPC 2 (2019)	RESULTS INDICATORS Baseline: FY2016 and Target: FY2020 (unless otherwise mentioned)
Pillar Two: Improve the policy framework for public financial management		
<b>Prior Action 5:</b> To strengthen public financial management systems, the MoF has: (i) integrated all public financial management systems onto one platform - Public Financial Management Information System and (ii) provided access to the PFMS to all federal ministries.	<b>Trigger 5:</b> To strengthen state and local governments' public financial management, (i) the Local Governments have adopted the Local Finance Procedures Bill and its directives and the Local Administrative Revenue Bill and its procedural directives; and (ii) to increase transparency and support citizens' engagement the government has instituted a system of public disclosure of local government expenditure reports by making them available on the website of the Financial Comptroller General's Office.	Consolidated public expenditure data available in the public domain. Baseline: NA Target: FY2020 budget
<b>Prior action 6:</b> To strengthen budget realism: (i) the Recipient has issued guidance to the federal ministries to guide their preparation of the draft three-year MTEFs for the FY 2019 budget cycle; and (ii) the National Natural Resources and Fiscal Commission has issued its circular to the local governments to guide their preparation of the annual budgets, to be part of the Local Government Development Plan.	<b>Trigger 6:</b> To ensure budget realism at the local level, the local governments' council has mandated the preparation of a 3-year MTEF in line with the Local Government Development Plan.  <b>Trigger 7:</b> The Cabinet has endorsed and submitted to Parliament the Fiscal Responsibility and Budget Management Bill (FRBMB) to ensure fiscal discipline and increase accountability.	Deviation between consolidated budget estimates and actual consolidated spending. Baseline: 15 percent (average of FY2011-2016) Target: 10 percent or lower deviation.  Submission of annual public expenditure reports: Baseline: None Target: All expenditure reports submitted as per the FRBMB to the Parliament.
<b>Prior action 7:</b> To improve budget execution, the MoF has: (i) issued a decree which requires all new aid funded and national priority projects to have secured project filter clearance for issuance of budgetary funds; (ii) adopted the System for Automatic Spending Authorization and Program Approval for all spending units which will assist in budget execution from day one of new fiscal year; and (iii) adopted a system of payments by account payee only to expedite payments.	<b>Trigger 8:</b> To strengthen expenditure control: (i) the Financial Comptroller General Office has adopted the new internal control guidelines (2018); and, (ii) the cabinet has submitted the 2018 Audit Bill to the Parliament for approval.	Proportion of capital expenditure undertaken in the last trimester: Baseline: 75 percent Target: 65 percent Audit irregularities reported by the OAG report: Baseline: Audit irregularities of Rs. 97.44 billion (OAG 2016 report). Target: 2019 OAG report with 40 percent reduction in the amount of irregularities reported compared to the 2016 OAG report.
<b>Prior Action 8:</b> The Parliament has approved Disaster Risk Reduction and Management Act -2017, which will govern coordination and management of all activities pertaining to disaster management, disaster risk reduction, disaster recuperation and disaster response as well as monitoring and mitigation measures on climate change and global warming.	<b>Trigger 9:</b> To strengthen disaster management response and initiate disaster risk reduction actions, the federal government has (i) established the National Disaster Risk Reduction and Management Center; (ii) approved the disaster management national policy and plan; and (iii) issued disaster management policy guidelines to state and local governments taking current risk profile and future climate change into consideration.	Funds allocated to the Disaster Management Fund: Baseline: Zero Target: TBD
<b>Prior action 9:</b> The MoF has established the Revenue Management Information System at the federal level to provide real time information on revenue collections.	<b>Trigger 10:</b> The MoF has established the Revenue Management Information System at the state and local level to provide revenue collection information.	Availability of information on tax collections: Baseline: Data on 90 percent of tax collections available with a lag of two months. (FY2016) Target: Data on 90 percent of tax collections available on a real-time basis (FY2019)

# Integrated Public Financial Management Reform Project (IPFMRP)

**The IPFMP is the flagship project of the second phase of the PFM MDTF and supports in an integrated fashion the priorities of the government as expressed in the National PFM Reform Plan.** Two missions took place in July 17 to 27 and November 6 – 10, 2017. In both the missions, the team collaborated closely with Government staff, development partners and local stakeholders active in this field. The main objectives of the mission were: (i) to assess project readiness including the reviewing the adequacy of staffing and mapping of the PEFA Secretariat, Project Procurement Strategy for Development (PPSD) and procurement plans for the first 18 months of procurements; and (ii) finalize the detailed design of all project components, results framework and implementation arrangements.

Bank team carried out consultations on the preparation of the proposed IPFMRP. The AM was discussed at the wrap-up meeting on November 10, 2017 which was chaired by Dr. Baikuntha Aryal, Joint Secretary, International Economic Cooperation Coordination Division, Ministry of Finance (MoF) and participated by Mr. Kewal Bhandari, Joint Secretary, Budget and Program Division, MoF and Mr. Murari Niraula, Member Secretary of PEFA Secretariat.

**Proposed Project Scope:** The development objectives of the proposed Project are to: (a) streamline capital project appraisal and selection procedures in selected sectors; (b) adopt a reporting and budgeting framework suitable for the new federal structure; (c) make available timely annual financial statements to the public aligned with international standards; and (d) improve internal control procedures. The draft indicators discussed to measure the achievement of the Project Development Objectives (PDOs) include: (a) simplified, updated guidelines on project screening,

appraisal and prioritization implemented in two pilot subsectors; (b) reporting and budgeting guidelines developed and adopted to suit the new federal structure; (c) annual financial statements aligned with international standards are prepared and published in a timely manner; and (d) national and line ministry/sector level internal control guidelines are developed and approved for adoption.

Four priority areas have been identified for support by way of strengthening systems, processes and capacity: (1) public investment management and budgeting; (2) public financial management (PFM) improvements in subnational governments; (3) fiscal reporting and controls and (4) establish arrangements to mainstream capacity building and management of PFM reforms. Embedded in these components are three noteworthy areas that the government considers as essential to move the Public Financial Management (PFM) reform agenda forward. These include support to strengthening budgeting, obtaining membership in the Open Government Partnership and designing of preliminary steps towards improving revenue management. The detailed subcomponents, activities and the intermediate results under these four priority areas are attached in Annex 3.

**Proposed Project Cost and Financing:** The proposed Project is intended to be funded by a MDTF for Public Financial Management and the government's budget (15 and 3 Million USD \$ respectively). The proposed project design will anchor the integrated PFM reform plan prepared by a multi-agency task force mandated by the PFM steering committee. In addition, a rapid assessment of subnational PFM arrangements was carried out to factor in the new federated structure of governance. Government's Public



Financial Management Reform Program (PFMRP) is costed at USD 25 million to support 13 implementing agencies. High priority areas from the strategy as well as emerging areas of priority have been selected for support under the proposed Project to align with resource availability. The cost estimate of these prioritized activities amounts to USD 18 million.

**Retroactive Financing:** It was agreed that the Government will use the retroactive financing option (up to a ceiling of 20% of the estimated MDTF contribution as retroactive financing for payments made by the Government not more than 12 months before the expected date of signing of the Grant agreement) to provide immediate support required to establish PFM arrangements for the new federal structure and to also complete some key spill over activities from SPFM II that closed on July 31, 2017. Accordingly, a list of such activities that aligns with the proposed project development objectives were approved by the Bank for retroactive financing. The Bank team reminded the Government that activities that are covered by retroactive funding should follow World Bank procurement procedures.

**Readiness filter:**

- a) Procurement plan in Systematic Tracking of Exchanges in Procurement (STEP)
- b) Project Procurement Strategy for Development (PPSD)
- c) Form core project team for implementation

**Financing instrument:** The Project will be financed using the 'Recipient Executed (RE) Investment Project Financing (IPF)' instrument. This instrument has been selected as the project has clear objectives, activities and results that will be achieved by financing a clear set of expenditures.

**Implementation Arrangement:** As part of its effort to strengthen PFM systems and coordinate reforms, the GoN established a PFM Steering Committee (an apex body of overall PFM reforms) and set up a Public Expenditure and Financial Accountability (PEFA) Secretariat in 2008. Since then these arrangements have been used to coordinate and monitor the Strengthening Public Financial Management (SPFM) I and II projects. The government has decided to follow this oversight and coordination mechanisms for all PFM related interventions of the Government going forward as the government aims for an integrated approach to PFM initiatives. Accordingly, the same coordination arrangement will continue for the proposed Project. The implementation of project activities will rest with ministries, departments and agencies of the Government, aligned with their institutional mandate. This arrangement will ensure the operational independence of all implementing agencies. Project Implementing Units consisting of existing staff will be formed by each agency. These focal groups to give greater attention to project implementation and make way for efficient project coordination with the PEFA Secretariat.

## Citizen Engagement work during July to Dec 2017

Citizen engagement is a key component of the IPFMP presented above. It has been decided that to bridge the gap between the OAG project, the PRAN, already closed, and the new project (IPFMP), various activities would have to be financed directly by the MDTF (Bank Executed small grants). The following activities in the area of citizen participatory audit (CPA) were in particular conducted:

OAG Nepal initiated CSO participatory audit process in Nepal and started implementation from 2016. This work

is continued so that we do not lose the momentum of the CPA work in Nepal. To develop the overall strategy of the CE in PFM in Nepal and continue the work on CPA, the Trust fund was extended with no cost extension until Dec 2017. The major focus of this reporting period has been documenting all the work under CPA in Nepal and keep up the momentum through series of meetings and discussion with OAG Nepal on CPA part and Citizen's Engagement(CE) part of the PFM in general as a preparatory work of the Project.

Nepal initiated CPA work has been in high demand in the regions mainly in Sri Lanka and Afghanistan. Therefore, the CE Team focused on packaging all the training and approaches from OAGN. The team have a readymade package (Chronology, Brief based on Chronology and all the agenda, reports and products of training and workshops to share with SAR region and other interested countries). A designer was hired to design this package. The package will be shared with all once ready.

The CE team also had chance to attend the advisory committee meeting on performance Audit for the year. The advisory committee which is also represented by CSOs recommended to continue NRA as one of the priority sector in earthquake affected districts. Further to that Education and Health, Road and Cultural heritage and tourism was recommendation for the citizens participation in Audit process of Nepal of OAG. Further to this, as a part of the program development on CPA part Anjalee Thakali attended the meeting with Public Affairs Committee (PAC) with Akmal Minallah and Yogesh B Malla in August 2017.

ICR has been prepared as per the new framework Simplified Completion and Results Report (ICR) which came in effect from July 2017 and approved by OPCS for small Trust fund during this reporting period. Some of the lessons learnt from the ICR is as follows:

Given the limited program duration and tight deadlines, program elements having direct CSO implementation mandates were completed on time and with little space for innovation as compared to program components requiring an intermediary (SM) engagement for fruition.

Programs of scale that include reaching out to remote areas as well as easily accessible areas could benefit from avoiding a one size fits all approach. Citizens in remote locations require more face to face interaction and awareness activities, more time for reflection. Such citizens are generally also relatively less privileged in terms of access to information and opportunities.

In contrast, citizens in areas within easy reach of facilities or decision making points, already have a head start in terms of awareness, options for seeking knowledge, and generally demonstrate need of less turnaround time in which to utilize recently gained skills and information. Having a program with uniform time and the same input elements for populations with varied receptivity and action opportunities may need rethinking. Designing future programs would also need to factor in the newly emerging federal structure.

Incomplete, inadequate or unsystematic documentation and record keeping of PFM related data and information at the local bodies level constrains targeted action/s on part of civil society organizations to improve it.

The use of social accountability tools, including Public Hearing, Social Audit and Public Audit even though required and mandated by the MOFALD regulations is still not a regular practice by the VDCs. Due to their work overload, VDC Secretaries tend to fulfill only the basic minimum requirements and in ways that take up the least time. Still, whenever used, SA tools are effective in catalyzing improvements in local PFM governance and service delivery.

# PART II

## FINANCIAL REPORT

As of December 2017, the total pledged amount to PFM MDTF by its six donors was US\$20.95 million (Table 1). Subsequently, the Trust Fund account TF072582 parallel to the original TF071617 was created to accommodate the new contribution. Current deposits — meaning funds received by the MDTF Administrator — stand at US\$ 27.91 million, with the balance of pledged funds to be paid into the MDTF account, administered by the World Bank, as per the Administration Agreements.

The total disbursement as of December 2017 is USD 15.66 million (about 94% of total fund receipt). For the further details refer to (Table 2)

Table 1: Donor Contribution to MDTF as of December 31, 2017

Trustee Account: 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	2.85	2.99	2.85	2.99	.0	.0
Danish Ministry of Foreign Affairs (DANIDA)	DKK	.0	.0	.0	.0	.0	.0
Denmark - Royal Ministry of Foreign Affairs	DKK	2.0	.38	2.0	.38	.0	.0
EU-Commission of the European Communities	EUR	4.50	5.62	4.50	5.62	.0	.0
Norway - Ministry of Foreign Affairs	NOK	15.0	2.62	15.0	2.62	.0	.0
Swiss State Secretariat for Economic Affairs (SECO)	CHF	3.0	3.07	3.0	3.07	.0	.0
United Kingdom - DFID	GBP	3.50	5.57	3.50	5.57	.0	.0
United States Agency for International Development (USAID)	USD	.71	.71	.71	.71	.0	.0
<b>Sub Total</b>			20.96		20.96		

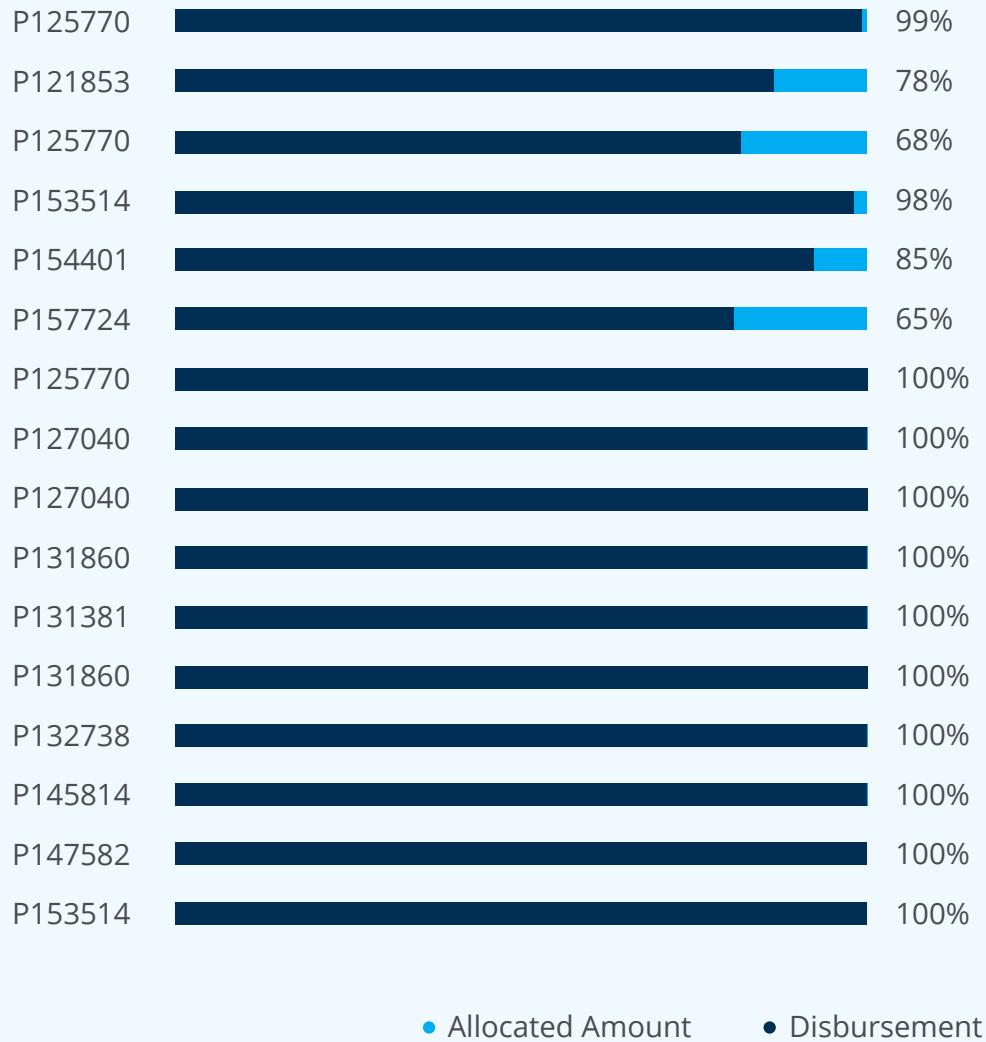
Trustee Account: TF072582							
Customer Name	Currency	Amt in Country Currency	Amount in USD	Paid in Country Currency	Paid in USD	Unpaid in Country Currency	Unpaid in USD
Australia-Department of Foreign Affairs and Trade	AUD	2.80	2.02	2.80	2.02	.0	.0
EU-Commission of the European Communities	EUR	3.0	3.37	3.0	3.37	.0	.0
Norway - Ministry of Foreign Affairs	NOK	34.0	4.29	13.0	1.57	21.0	2.72
<b>Sub Total</b>			9.68		6.96		2.72
<b>GRAND TOTAL</b>			30.64		27.92		2.72

**Nepal PFM MDTF Financial Status**  
**Table 2: Disbursements as of December 31, 2017**

Trustee TF	Grant Number	Project ID	Grant Name	Grant Closing Date	Grant Amount	Disbursements	% Disbursement	Fund Balance	Commitments	Available Balance
TF071716	TF010454	P125770	Preparation, appraisal, supervision, monitoring, reporting costs of Strengthening PFM Systems	9/30/2021	550,000.00	542,537.30	99%	7,462.70	7,462.70	-
	TF010623	P121853	Program Management and Administration Costs.	9/30/2021	838,313.37	650,690.94	78%	187,622.43	37,022.37	150,600.06
	TF012668	P125770	NLTA under the SPFM Project to Govt of Nepal	1/31/2022	500,000.00	339,387.13	68%	160,612.87	762.65	159,850.22
	TF0A0370	P153514	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2017	550,000.00	540,719.51	98%	9,280.49	7,202.18	2,078.31
	TF0A1065	P154401	Nepal : Strengthening Public Financial Management II	7/31/2017	3,680,000.00	3,140,755.65	85%	539,244.35	539,244.35	-
	TF0A3254	P157724	Nepal-Support for Fiscal Management (TA)	6/30/2018	450,000.00	294,482.00	65%	155,518.00	26,372.15	129,145.85
	ACTIVE TFs				6,568,313.37	5,508,572.53		1,059,740.84	618,066.40	41,674.44
	TF010452	P125770	Strengthening Public Financial Management (PFM) System (Treasury System, Financial Reporting and PFM Capacity Building)	6/30/2016	4,242,311.23	4,242,311.23	100%	-	-	-
	TF010455	P127040	Strengthening the Office of the Auditor General Project	6/30/2016	2,219,468.89	2,219,468.89	100%	-	-	-
	TF010482	P127040	PREPARATION AND SUPERVISION COSTS OF STRENGTHENING OFFICE OF THE AUDITOR GENERAL PROJECT	6/30/2016	218,757.49	218,757.49	100%	-	-	-
	TF012485	P131860	Strengthening Civil Society Organisations' use of Social Accountability to improve Public Financial Management in Nepal	9/30/2014	800,000.00	800,000.00	100%	-	-	-
	TF012492	P131381	NP ED PETS	12/31/2014	148,346.99	148,346.99	100%	-	-	-
	TF012524	P131860	Strengthening Civil Society Organisations' Use of Social Accountability to Improve Public Financial Management in Nepal	11/30/2015	699,283.48	699,283.48	100%	-	-	-
	TF013011	P132738	Operational Risk Assessment of PFM reform in Nepal	6/30/2013	199,983.75	199,983.75	100%	-	-	-
	TF015354	P145814	Nepal: Strengthening Budgeting Process	6/30/2016	701,591.45	701,591.45	100%	-	-	-
	TF017673	P147582	Nepal ROSC A&A	6/30/2015	7,720.19	7,720.19	100%	-	-	-
	TF0A0369	P153514	Strengthening Civil Society Organizations' use of Social Accountability to improve PFM in Nepal 2	12/31/2016	923,734.12	923,734.12	100%	-	-	-
	CLOSED TFs				10,161,197.59	10,161,197.59	100%	-	-	-
	T O T A L				16,729,510.96	15,669,770.12	94%	1,059,740.84	618,066.40	41,674.44
			Admin Fee		419,156.69					
			Unallocated Balance		3,809,166.64					
			TOTAL COMMITMENT of Trustee TF071617		20,957,834.29					
TF072582	Nepal Public Financial Management Support Multi Donor Trust Fund (successor of TF071617)				6,958,666.65					
			Admin Fee		0					
			Unallocated Balance		6,958,666.65					
GRAND TOTAL					27,916,500.94	15,669,770.12		1,059,740.84	618,066.40	41,674.44

Note: The total paid in contributions from DPs is USD 27,916,500.94. Investment Income till this period is USD 309,727.87 is not included in the above table.

Figure 2: Activity-wise Allocation and Disbursement







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