



**Nepal's Public Financial Management Reform  
Strategy/Program  
(PFMRP)  
Phase II  
(2016/17-2025/26)**

**Government of Nepal**

**Ministry of Finance**

**Public Expenditure and Financial Accountability (PEFA) Secretariat**

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## Table of Acronyms

Acronyms	Description
ADB	Asian Development Bank
BMIS	Budget Management Information System
CGAS	Computer Based Government Accounting System
CIDA	Canada International Development Agency
CS-DRMS	Commonwealth Secretariat- Debt Recording & Management System
CSO	Civil Society Organization
Danida	Denmark's development cooperation, under the Ministry of Foreign Affairs of Denmark.
DDC	District Development Committee
DEO	Department of Education
DMO	Debt Management Office
DfID	Department for International Development of the United Kingdom
DoC	Department of Customs
DP	Development Partners
DPIU	District PEFA Implementation Unit
DTCO	District Treasury Comptroller Office
EU	European Union
FCGO	Financial Comptroller General Office
FMIS	Financial Management Information System
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GFS	Government Finance Statistics
GoN	Government of Nepal
ICAN	Institute of Chartered Accountants of Nepal
IMF	International Monetary Fund
IP	Immediate Priority
IRD	Inland Revenue Department
LMBIS	Line Ministry Budget Information System
LT	Long-Term

MCPM	Minimum Conditions and Performance Measures
MDAs	Ministry, Department and Agencies
MDTF	Multi-donor Trust Fund
MT	Medium-Term
MTBF	Medium-Term Budgetary Framework
MTEF	Medium-Term Expenditure Framework
NEFRS	Nepalese Enterprise Financial Reporting Standards
NFRS	Nepalese Financial Reporting Standards
NRB	Nepal Rastra Bank (Central Bank of Nepal)
NVC	National Vigilance Centre
OAG	Office of the Auditor General
PAC	Public Accounts Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PI	Performance Indicator
PIU	PEFA Implementation Unit
PPA	Public Procurement Act
PPMO	Public Procurement Monitoring Office
RMIS	Revenue Management Information System
SDC	Swiss Development Corporation
SPFM	Support for Public Financial Management
ST	Short-Term
TSA	Treasury Single Account
UN	United Nations
USAID	United States Agency for International Development
VDC	Village Development Committee

## Executive Summary

The development of Public Financial Management Reform Program, Phase II (PFMRP II) is built on the progress of the first phase of PFM reform (PFMRP- I), findings of the second PEFA assessment and the priority PFM areas identified by the Government of Nepal (GoN). The second PEFA assessment was a self-assessment conducted under the leadership of the Government of Nepal (with nine teams led by Joint Secretaries) and received endorsement from the PFM Steering Committee chaired by the Finance Secretary. The working committee was led jointly by the PEFA Secretariat and the Chief of the Budget and Program Division, Ministry of Finance.

Based on the findings of the second PEFA assessment, there were upgrades in 19 indicators (61%), downgrades in 2 indicators (7%) while 10 (32%) indicators remained constant. The second PEFA assessment notes improvements in the areas of budget credibility, comprehensiveness, budget formulation process, accounting, reporting, and audits. The areas of improvement identified by this assessment are budget execution and control, enhancing parliamentary scrutiny on PFM system for better accountability and enhanced control of extra budgetary funds. The use of Information Technology has been a core area that has assisted in the improvement of PEFA indicators. The maintenance, up-gradation and sustainability of the previous and on-going PFM reforms are considered as prime important areas of improvements too.

The recent constitutional mandate for a new federal structure raises a number of issues in terms of delegation of functional responsibilities, design of intergovernmental fiscal system, provision of administrative authority to lower levels for service delivery and control over relevant staff and assets associated with the service. These would need to be resolved by GoN and could also be used as an opportunity to address shortcomings in PFM and governance system to enable better transition through designing for conversion, encompassing and replicating the present PFM system, process and institution which works well with current skills and capacities. Taking the example of DTCOs where they function out of every district, the structure can be aggregated at the level of provinces and local level governance.

Drawing mainly from identified strengths and weaknesses identified by the second PEFA assessment, the Government has prepared the PFMRP II. It has equally taken into account the ongoing reform program of the government in areas such as further enhancement of the Treasury Single Account (TSA) systems, strengthening accounting and reporting practices (NPSAS) and strengthening PEFA Secretariat. There are all together 119 reform action plans identified and developed on the basis of the recognized PFM performance gaps observed from the second PEFA assessment. There has been extensive consultation with key stakeholders in

two national level PFM seminars, five regional meetings of FCGO, peer group discussions with MoF, PPMO, OAG and other line ministries and a consultation with DPs. PFM RP II focuses on the various areas that still need to be further developed and also reflects the immediate priorities (24 numbers of actions). Government, through PFMPRP Phase II Strategy, intends to refine the detailed plan of action as derived from second PEFA assessment in to short-term/medium/long-term strategy with multiple reform actions sequenced and aggregated at sub-project level. The National PFM Steering Committee will continue to spearhead the next phase of PFM reforms with support from implementing agencies and line ministries in Government of Nepal.

This strategy is based on three key principles. First, it is a Government report developed after an extensive stakeholders' consultative process. Second, it takes into consideration lessons learnt from first phase particularly the limits to absorptive capacity of the agencies. Third, the preference would be to implement this second phase on the basis of clustering into sub-projects that are government executed to enhance ownership and commitment. When DPs are involved, one DP or multi-donor trust fund (MDTF) should take the lead in providing support for each sub-project to help assure coherent design and implementation. If all the actions of a sub-project is not possible to support by one DP then other DPs also could be involved in supporting any part of the sub-project implementation.

Sustaining the management of public finances continue to be a priority for GoN today, even more as the nation is going through a crisis as a result of the 2015 earthquake and blockade. The Government remains committed to improve and mainstream sound PFM systems, processes and institution throughout the country.

# **Nepal Public Financial Management Reform Strategy**

## **Public Financial Management Reform Program, Phase II (PFMRP II)**

### **1. Introduction**

The overall goal of the strategy is to improve efficiency, transparency and accountability of PFM systems and practices at the national and sub national levels, to enable an efficient and timely response to urgent needs of earthquake reconstruction, an enabling environment for enhanced and widely shared economic growth, and protection of the most vulnerable through targeted social programs. This Strategy was prepared under the leadership of GoN. Various stakeholder discussions were held with development partners to validate and provide oversight to the second phase PFM reform strategy. Strategy implementation will be led by the Ministry of Finance (MoF), Financial Comptroller General Office [FCGO], PEFA Secretariat, the National Planning Commission [NPC], Office of the Auditor General [OAG], Public Procurement Monitoring Office [PPMO], Line Ministries, Local Bodies, Parliament (Office) and Civil Society Organizations [CSOs], Institute of Chartered Accountants Association (ICAN), NRB/Commercial Banks with the supports of Development Partners (DPs). The details on the roles of each organization are included in Annex 3.

The strategy takes stock of the achievements of the first phase of PFM reform and identifies the gaps in specific areas of PFM reform. The first step in preparing the strategy has been to assess the current degree of achievement, using the latest Public Expenditure and Financial Accountability (PEFA) assessment, FY13/14, and other recent analytical work. The reform path consists of different phases defined by taking into account the above analytical work, and Nepal's capacity, administrative culture and priorities among the different areas of PFM. This strategy follows a sequencing approach that aims to first make progress in achieving basic objectives of improving fiscal discipline, enhancing capital expenditures, revenue augmentation, enhancing accountability, and transparency. Progress in these areas will come from a combination of technical PFM measures, and changes in informal practices that may otherwise undermine such measures. Once basic milestones have been achieved in any given area, the focus can start to shift towards using credible financial information for better and informed decision-making, increased operational efficiency, enabling of improvements in service delivery, and deeper progress with accountability to legislatures and citizens.

#### **PFMRP II will achieve the following outcomes:**

Outcome 1: Improved Budget Credibility

Outcome 2: Improved Comprehensiveness and Transparency of Budgeting

Outcome 3: Improved Policy-based budgeting

Outcome 4: Strengthened Predictability and Control in Budget Execution

Outcome 5: Improved Accounting, Recording and Reporting  
Outcome 6: Improved External Scrutiny and Audit  
Outcome 7: Improved Human Resource Management and Capacity Development for PFM  
Outcome 8: Improved Donor Practices

## **2. Context of Reforms Embraced Over the Years by Nepal**

### **2.1. PFM Reforms in Nepal**

PFM reforms are receiving considerable attention at the global level, both from developing and industrial nations. Strengthening PFM is crucial for addressing challenges posed by the fiscal adjustments taking place following the 2008 global financial crisis. This includes full and transparent reporting on public expenditures, revenues and debt; medium-term fiscal and budget frameworks; expenditure commitment controls; surveillance and management of fiscal risks; and appropriate accountability mechanisms. It also includes program-monitoring frameworks that help to measure that public spending delivers expected outputs and outcomes. Such improvements in PFM contribute to better governance by improving the efficiency and effectiveness of public expenditure, and increasing the potential for economic growth, improvements in service delivery and poverty reduction.

Public Financial Management reform is a gradual and long-term process that requires strong political will and commitment which will contribute to reducing fiduciary risks and improve transparency and accountability.

The upgrading of the PFM framework remains a major priority of GON despite the recent setback faced by the country. It recognises such reform to be essential for improving overall governance, optimising outputs from public resources, and ensuring inclusive, broad based as well as sustainable development. The Government is committed to improve and mainstream PFM systems, processes and institutions of the country through various policies, projects and programs. Achieving results and inculcating a "Performance Culture" within Public Financial Management practices is therefore crucial. There is equally commitment and ownership by MDAs.

Internationally applicable standards, norms and principle for Public Financial Management are very much embedded within Nepal's culture of reform. The Government is intent on continuing to build on what the country already has achieved and to further embrace an implementable, doable and achievable reform agenda.

It is also important to recognise the sustained partnership from the Development Partners in the journey that Nepal has embarked upon to build a credible PFM reform structure that demonstrates seriousness of purpose in terms of the way public finances are managed.



## **2.2. Reform from the 1990s onwards**

Nepal has a long-standing track of embracing PFM reforms – reforms which were indeed initiated in the 1990s. From 1990 - 2008, a number of PFM reform activities took place to achieve the desired goal of economic development through good governance in Nepal. In this context, one extra push that came from the World Bank and IMF was the initiation of the HIPC initiative which was particularly notable for spearheading the PFM reform agenda in Nepal. Though Nepal subsequently declined to join the HIPC debt Initiative, the analysis concluded by the Bretton Wood institutions showed the eligibility of the country to receive debt relief under the set criteria. While rejecting its inclusion in the debt initiative, GoN instead became more determined to strengthen its economic management by improving a more Nepalese focused PFM reform based on internally-agreed performance indicators.

Nepal has carried out extensive PFM reforms since the 1990s, and they were assessed in the first Public Expenditure and Financial Accountability (PEFA) assessment, as of FY2005/6, based on the period FY2003/4 - 2005/6. The PEFA report outlined strengths and weaknesses. It found that Nepal had a system that was well-designed but unevenly implemented. The budget had become a credible policy tool, clearly linked to policies in some sectors, with solid control of aggregate outturns and a reasonable control framework at the transaction level (notably for payroll). However, there were many gaps in the control framework as well as significant implementation constraints, and large fiscal activities remain outside the scope of the central budget. Several weaknesses originated in the weak demand (from both Government and external stakeholders) for better budget information (financial and physical) and management. Based on this assessment, a reform plan was designed to improve efficiency of budgeting, expenditure controls, accountability and transparency. To manage this effort, the Government of Nepal (GoN) organized the high level "PEFA Steering Committee" and its operating level "PEFA Secretariat" to do this job quickly in a coordinated, continuous and sustainable way. In 2009 the PEFA Secretariat was established and it started to work by initiating the first phase reform project plan "Strengthening Public Financial Management System in Nepal (SPFM-I)". This had the objective to improve expenditure control and enhance government accountability of the GON. In 2010 with the help of the MDTF Grant fund supported by DFID, Embassy of Denmark, Norway, Australia DFAT, and administered by the World Bank, GON secured assistance to strengthen the treasury system, financial reporting and strengthening other critical PFM areas. This work has been enhanced with strong GoN commitment, leading to increased commitments from development partners. The Nepal MDTF has expanded from four donors to seven with new contributions from USAID, Government of the Swiss Confederation and EU. The establishment of MDTF has been an important step in harmonizing donor support for the government's PFM reform program, including demand-led initiatives and oversight of use of public resources.

### 3. Achievements

There has been considerable progress in recent years. The second PEFA assessment shows improvement across several indicators. Results of these upgrades on many PFM areas can be attributed to the first generation of PFM reforms led by GoN on budget credibility, tax policy, Treasury Single Account (TSA), financial management information system (FMIS) improvements, external audit and public procurement system. This is a result of collaborative efforts from various donors who are working in this field with a common objective of improving country capacity, improving PFM performance as measured by PEFA indicators with an aim to achieve results on the ground through effective use of resources.

GoN has been working closely with Development Partners (DPs) in the design and implementation of Public Financial Management (PFM) reform initiatives at the country and sector level. The components and the activities of SPFM I has been continued in the follow-on project with additional component regarding enhancing and sustaining the TSA system and replacement of treasury infrastructure at earthquake affected districts. So, some of the reform activities which are included in the second phase of PFM reform action plans are already in place in the SPFM II supported by MDTF. There has also been an increasing interest in recent years on the part of non-state actors, civil society organizations and development partners in strengthening financial accountability, with the goal of improving use of public resources and obtaining value for money. DPs provide complementary PFM support, inter alia, at the local level (ADB, DFID, CIDA, Denmark, SDC, GIZ, and UN agencies), to sector ministries (DFID), to the Ministry of Peace and Reconstruction (EU), and to revenue authorities (IMF, USAID). Annex 4 presents a list of PFM projects funded by development partners<sup>1</sup>.

Under the SPFM-I project funded by MDTF, TSA has been rolled out across all 75 districts of Nepal, meeting the output target one year ahead of schedule. As a result, the Government has been able to close 14,000 bank accounts. Now, TSA covers 100 percent of the budget throughout the country. Monthly budget execution reports are now available by its FMIS and posted real time data on the FCGO website, thereby, improving access and promoting transparency. After the success of this project, SPFM II project has been initiated. This project will provide support in upgrading the IT infrastructure for sustainability of the TSA system and enhance the financial management information system (FMIS) for revenue management. These activities are important to sustain the results obtained under the ongoing SPFM.

Through the SPFM project, commitment-recording module has also been rolled out in all 75 districts. RMIS has now been implemented in 15 districts this FY after its successful pilots in three large revenue receiving districts (Kathmandu, Lalitpur and Bhaktapur). Therefore, the government has online, real-time access to 90% of the revenue collections in these districts as compared to the 45% coverage in 3 districts before this reform took place.

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<sup>1</sup> Achievements on initiatives of other development partners need to be incorporated upon receiving details

There are ongoing efforts to improve the content, quality, comprehensiveness and timeliness of financial reporting. Two pilots of NPSAS- compliant financial statements for FY11/12 and FY12/13 have been completed at the Ministry of Physical Infrastructure and Transport and the Ministry of Women, Children, and Social Welfare. These NPSAS-based financial reports received certification by the International Consortium of Government Financial Management (ICGFM). Additional 14 line ministries' personnel have been trained to prepare NPSAS based consolidated financial statement in this fiscal year 2015/16. Fourteen central level entities have been able to prepare NPSAS compliant financial statements and submitted to OAG for audit purpose for fiscal year 2014/15. The FCGO is planning on rolling out NPSAS in the rest of the ministries in the coming fiscal year.

The Nepalese Financial Reporting Standards (NFRS), which had been drafted by the Accounting Standards Board (ASB) and approved by the Cabinet for adoption by public sector agencies in 2009, pronounced by the Institute of Chartered Accountants of Nepal (ICAN), two NFRS trainings for registered auditors have been completed, jointly supported by the MDTF and the Asia Oceania Standard Setters Group. The ASB has prepared 15 guidance notes and training-the-trainer program for qualified Chartered Accountants as well as formulated 40 NFRS. This is an indication of the strong level of GoN commitment on taking forward the PFM agenda. The Nepalese Enterprise Financial Reporting Standards (NEFRS) implementation plan for listed multinational manufacturing companies and some listed state owned enterprises has been rolled out starting from the FY2014-15, according to the Institute of Chartered Accountants of Nepal.

There are also efforts underway to better utilize information being captured by the Treasury Single Account to improve budget execution, reporting and audit, with an example on the latter given below.

Budget execution reports are being produced and used, for example by the Department of Education, and the Ministry of Federal Affairs and Local Government. Monthly expenditure data on each ministry is published on the website (<http://www.fcgo.gov.np>), but the data could be presented in a more disaggregated form to facilitate detailed analysis. Under SPFM-II, FCGO is working to provide online access of TSA/FMIS to all central entities nearly.

The Office of the Auditor General (OAG), under the Strengthening the Office of the Auditor General (SOAG) Project, has completed six ISSAI- compliant performance audits within areas like health, local government, and water and sanitation. The end-of-project target for the number of in-depth performance audits to be reported to Parliament has already been achieved. OAG has also enhanced public participation in the performance audit process. The Auditor General is keen to increase the coverage and improve the quality of performance audits and initiatives of risk based audit.

Line ministry budget information system (LMBIS) is one of the milestones of the online program budget submission which has created direct link between line ministries program budget

formulation and implementation with cooperation and coordination with MoF/NPC. This system is interlinked and interfaced with the BMIS of the MoF. Achievements on reforms of tax and customs through massive utilization of IT system wherein, application of PAN numbers to all the taxpayers, self-assessment of tax, on-line submission of tax reports, automation in customs and valuations are major landmarks of reforms in PFM. National Planning Commission (NPC) prepares and implements MTEF for better policy based annual budgeting and resource allocation on priority programs and projects.

Enforcement of Public Procurement Act and Rules and application of e-procurement system by Public Procurement Monitoring Office (PPMO) make better management of government procurement. PPMO has created a single portal of e-Government Procurement (e-GP) System with regular basis monitoring on all the government's procurements.

There have been critical upgrades in the audit function and enhanced collaboration between OAG and CSOs. In addition social accountability has improved with better access to entitlement information, including to the poor, women, and marginalized people. This is facilitated in part by participation in subnational bodies by women, marginalized and deprived groups in the budget process

Beyond MDTF, there has been different reform initiations made by ADB and other Development Partners supporting bilaterally in the field of PFM areas. Under SPMP-I (Strengthening Public Management Program), ADB has been supporting for LGCDP (including reform in accounting system of local bodies on computer/IT based), MTBF for local bodies, MC-PM, MARS (Municipal Administration Revenue System), SNGs' PEFA Assessment, Oversight and Accountability through National Vigilance Centre (NVC), Procurement Reform (e-GP), internal audit manual for local bodies, etc. The details of the PFM reforms activities supported by other Development Partners beyond MDTF are depicted in Annex:4

Finally, there has been good progress in strengthening the institutional structure guiding the reforms. Program results and reports are being uploaded and disseminated through a Program website (<http://www.mdtfpfm.org.np/>), which also became fully operational in the same month. The PEFA Secretariat's website (<http://www.pefa.gov.np/>) has also been launched and is another channel for program results and reports. The MDTF and PFM Thematic donor groups are working well. There is good progress on harmonization on the reform agenda.

#### **4. Recent acknowledgement of progress by the PEFA assessments**

The second PEFA assessment covers the period FY2011-12 – 2013/14. This assessment highlights progress made in financial management information systems (FMIS), Treasury systems including the TSA, planning and budgeting, accounting and reporting, adoption of GFS standards, taxation, audit, procurement, external oversight, accountability and foreign aid management. Despite the progress made, the second PEFA also identifies gaps in budget formulation and execution, internal control, internal audit and oversight, accounting, recording

and reporting, procurement, debt, revenue and investment management, access to information, human resource management and capacity development, payroll control and pension management, usage of FMIS, foreign aid management, and monitoring and evaluation.

**Progress between the two PEFA assessments is summarized below:**

**PEFA Score from 2008 to 2014**

PFM Performance Indicators		2008	2014	Scoring method	Comparable ratings	Change since 2008
<b>A: PFM OUT-TURNS</b>						
<b>I: Credibility of the Budget</b>						
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	A	M1	Yes	Performance improved.
PI-2	Composition of expenditure out-turns compared to original approved budget.	C	C+ C A	M1	Changed methodology	No direct comparability.
PI-3	Aggregate revenue out-turns compared to original approved budget.	A	A	M1	Changed methodology	Performance unchanged
PI-4	Stock and monitoring of expenditure payment arrears.	D+ C D	B+ A B	M1	Yes	Stock of arrears below 2% and system in place to generate arrears data.
<b>B: KEY CROSS-CUTTING ISSUES</b>						
<b>II. Comprehensiveness and Transparency</b>						
PI-5	Classification of the budget	C	A	M1	Yes	Expanded budget classifications - comprehensive
PI-6	Comprehensiveness of information included in the budget documentation	B	A	M1	Yes	Performance improvement regard to information benchmark 3: deficit financing, describing anticipated debt composition.
PI-7	Extent of unreported government operations	C C C	D+ D C	M1	Yes	Higher proportion of extra budgetary operations than before.
PI-8	Transparency of Inter-governmental Fiscal Relations	C C	C+ C	M2	Yes	Subnational government's fiscal data reporting strengthened

PFM Performance Indicators		2008	2014	Scoring method	Comparable ratings	Change since 2008
		C	C			
		C	B			
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	C	M1	Yes	Performance improves regard to benchmark 2: subnational net fiscal position monitored and audited.
		C	C			
		D	C			
PI-10	Public access to key fiscal information	B	A	M1	Yes	Performance of benchmark 4 improved: Reports on central government consolidated are made public within six months of completed audits.
<b>C: BUDGET CYCLE</b>						
<b>III. Policy-Based Budgeting</b>						
PI-11	Orderliness and participation in the annual budget process	C+	A	M2	Yes	Issuance and adherence of budget discussion as per budget calendar.
		B	A			
		B	A			
		D	NA			
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	B	M2	Yes	Debt Sustainability Analysis conducted annually.
		B	B			
		C	A			
		C	C			
		C	C			
<b>IV. PREDICATABILITY &amp; CONTROL in BUDGET EXECUTION</b>						
PI-13	Transparency of taxpayer obligations and liabilities	C+	A	M2	Yes	Performance improved on the following: a) Tax obligation is clear and discretionary power limited;
		C	A			
		C	A			
		B	B			b) Taxpayer's access to information is

PFM Performance Indicators		2008	2014	Scoring method	Comparable ratings	Change since 2008
						comprehensive, clear and expanded.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment.	C C C C	A B A A	M2	Yes	Overall improvement in taxpayer registration and tax assessment.
PI-15	Effectiveness in collection of tax payments	D+ D B D	D+ D B D	M1	Yes	Performance unchanged
PI-16	Predictability in the availability of funds for commitment of expenditures.	C+ C B C	C+ C B C	M1	Yes	Improvement on cash flow forecast, information to MDAs on expenditure ceilings and transparency of adjustment to budget allocations.
PI-17	Recoding and management of cash balances, debt and guarantees	C+ C B C	C+ C B C	M2	Yes	Performance unchanged
PI-18	Effectiveness of payroll controls	C+ C B C B	C+ C B C C	M1	Yes	Performance unchanged.
PI-19	Transparency, competition and complaints mechanisms in procurement	C C C	B B D	M2	New dimensions, cannot be compared	Use of open competition, operation of independent administrative

PFM Performance Indicators		2008	2014	Scoring method	Comparable ratings	Change since 2008
		C	C A			procurement compliant system.
PI-20	Effectiveness of internal controls for non-salary expenditures.	C C C C	C C C C	M1	Yes	Performance unchanged.
PI-21	Effectiveness of internal audit	D+ D C D	D+ D C D	M1	Yes	Performance unchanged.
<b>V: Accounting, Recording and Reporting</b>						
PI-22	Timeliness and regularity of accounts reconciliation	C+ B C	C+ (i) C (ii) B	M2	Yes	Reconciliation issues on the revenue accounts.
PI-23	Availability of information on resources received by service delivery units	C	A	M1	Yes	Improvement on resources made available to service delivery units incl. completion of PET survey.
PI-24	Quality and timeliness of in-year budget reports	C+ C A C	C+ C A B	M1	Yes	System able to show direct comparison between original budget and expenditure and there is no material difference in data accuracy. However, the system is unable to depict commitments on a monthly basis.
PI-25	Quality and timeliness of annual financial statements	C+ C A	C+ C A	M1	Yes	Performance unchanged



PFM Performance Indicators		2008	2014	Scoring method	Comparable ratings	Change since 2008
		C	C			
<b>VI. External Scrutiny and Audit</b>						
PI-26	Scope, nature and follow-up of external audit	D+	C+	M1	Yes	Audit coverage expanded and timely submission of audit reports
		B	B			
		D	C			
		C	C			
PI-27	Legislative scrutiny of annual budget law	D+	D	M1	Yes	No parliament
		C	D			
		D	NA			
		D	NA			
		B	NA			
PI-28	Legislative scrutiny of external audit reports	D+	D	M1	Yes	No parliament
		D	D			
		C	NA			
		C	NA			
<b>D. Donor Practices</b>						
D-1	Predictability of Direct Budget Support	D	D+	M1	Yes	Improvement in timeliness of donor disbursements
		D	D			
		D	A			
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D	C+	M1	Yes	Improvement in donor information on project support
		D	B			
		D	C			
D-3	Proportion of aid that is managed by use of national procedures.	D	C	M1	Yes	Greater use of national procedures

Out of 31 high level PFM indicators, 18 were upgraded, with eight "A" scores. In comparison, there was only one "A" score in the first assessment. Only two indicators were downgraded in the second assessment: one due to the absence of a Parliament during the period, and the other due to a slight increase in extra budgetary funds. It is clear that many of the improved scores can be attributed to the various actions that the GoN took. For example, the improvement in PI-26

resulted from expanded audit coverage and more timely submission of audit reports. To support this, the GoN appointed an Auditor General, and carried out institutional improvements in the OAG, with support from the MDTF and other DPs. Timely submission of audit reports was also possible because of improved timeliness in provision to the OAG of the consolidated financial statement from FCGO.

## **5. Next stage of PFM Reform**

Nepal has achieved impressive progress in recent years with, for example, a halving of the percentage of people living on less than \$1.25 a day from 53 percent in 2003-4 to 25 percent in 2010-11. Social indicators in education, health and gender have also improved, along with steady economic growth. A contributing factor has been the end of the conflict, peace process, spirit of consent and collaboration in the Constituent Assembly to declare Constitution with the resolution of the issue of federalism and form of government.

However, the earthquake that struck Nepal in April, 2015 set backed growth from a previously estimated 4.6% for FY15/16 to more than 2% (MoF estimates). Growth is suffering further from a fuel crisis as a result of trade disruptions on the Indian border that began in September 2015. While Nepal is still recovering from this devastating disaster, the fuel crisis has further exacerbated the situation by creating shortages in essential supplies, shutting down factories, schools and hindering implementation of projects. In addition, it is expected that a subpar monsoon will hold back agricultural growth. Delays in getting reconstruction started, along with damaged infrastructure, are curtailing industry and services growth. Expenditure management needs to be drastically improved to support fast and efficient reconstruction and recovery from other impacts of the earthquake and trade disruption. Social assistance schemes need to be scaled up and better targeted to provide reliable safety nets to the vulnerable.

The constitutional mandate for a new federal structure also raises a number of questions for PFM and service delivery: How will functional responsibilities be delegated for public services to federal, provincial and local governments? What are the principles to underpin an intergovernmental fiscal system through assignment of own source revenues and intergovernmental transfers? What will be the provision of administrative authority to levels of government to carry out service functions, including control over relevant staff and intangible and physical assets associated with the service?

In moving forward to answer these questions, Firstly, Nepal needs to draw on its own experience with sub-national governance and service delivery when designing the future system. Issues in the current system, particularly ambiguities in functional assignments and the long practice of local bodies mostly playing a supplemental role in service provision, could be addressed in a new design. Addressing shortcomings could begin prior to a more far-reaching transition to a federal system that might be undertaken. Second, setting up a new system of sub-national governance will necessarily involve a complex transition from the existing system to the new design. There is a need for a simplistic design in order for the federal structure to be easily organized. Taking

the example of DTCOs where they function out of every district, the structure can be aggregated at the level of possible provinces. A detailed mapping of how services are delivered at present and when and how they are transferred to new entities could help minimize disruption of service delivery in the transition. There is a need of review of present PFM system (drawing a road map) to make possible of applying, replicating, converting and extending in provincial and local level of government.

Drawing mainly from the strengths and weaknesses identified by the second PEFA Assessment, the Government has prepared the PFM RP II. There have been extensive consultations with key stakeholders in national level PFM seminars, regional meetings of FCGO, peer group discussions with MoF, OAG, PPMO and line ministries and consultations with DPs.

Drawing on this report and related materials, the Government is now refining the detailed plan of action as derived from second PEFA assessment, to become a short-term, medium-term and long-term design or strategy with multiple reform actions sequenced and divided in sub-projects, taking full consideration to the absorptive capacity and constraints of the various implementing agencies and policy level considerations that will be required.

### 5.1 Second Phase PFM Reform Strategy

The first step in preparing the PFM reform strategy has been to assess the current degree of achievement, using the latest Public Expenditure and Financial Accountability (PEFA) Assessment, FY13/14 and other recent analytical work. The reform path consists of different phases defined by taking into account the above analytical work, and Nepal's capacity, administrative culture and priorities among the different areas of PFM. The approach to sequencing aims to first make progress in achieving basic objectives of improving fiscal discipline, improving budget execution and control, enhancing capital expenditures, revenue augmentation, enhancing accountability, and transparency. Progress in these areas will come from a combination of technical PFM measures, and changes in informal practices that may otherwise undermine such measures. Once this basic progress has been made in any given area, the focus can start to shift towards using credible financial information for better and informed decision-making, increased operational efficiency, enabling of improvements in service delivery, and deeper progress with accountability to legislatures and citizens.

The main features of the approach of second phase PFM reform strategy are as follows:

- Phase II aims to achieve 8 outcomes, supported by clearly defined intermediate results. These outcomes are basically derived and oriented on the critical dimensions of the PEFA Framework.
- The approach addresses a comprehensive framework covering all key areas of the public financial management cycle.
- This second phase stressed on continuation of ongoing first phased reform activities with necessary up-gradation and sustainability.

- PFM reform action plans (programs) are sequenced on sub-project wise which are intended to lead by the core PFM entities/institutions/organizations with establishing ownerships and commitments on its full implementation and sustainability. Annex:2

Outcomes	Intermediate Outcomes
Outcome 1: Improved Budget Credibility	<ul style="list-style-type: none"> <li>• Improved consistency of spending of capital expenditures and reduce amount of total spending in last month of fiscal year;</li> <li>• Enforcement of Budget Management and Financial Responsibility law with timely budget discussion and approval by the Parliament and to operationalized budget on time and improved in realistic sector ceilings will create results of improvement of capital expenditures.</li> <li>• Strengthened budget credibility (PI-1 and 3) by maintaining the score of A of aggregate expenditures and revenues outturns compared to original approved budget.</li> </ul>
Outcome 2: Improved Comprehensiveness and Transparency of Budget.	<ul style="list-style-type: none"> <li>• Improved extent of central government monitoring of autonomous government agencies and public enterprises, improved in the extent of unreported government operations.</li> <li>• Improved in PI-7 extent of unreported government operations score D+ to at least B.</li> <li>• Improved in PI-8 transparency of inter-governmental fiscal relations score C+ to at least B+.</li> </ul>
Outcome 3: Improved Policy-based budgeting	<ul style="list-style-type: none"> <li>• Improved ofcosted sector strategies and medium term fiscal framework and optimum use of FMIS in planning and budgeting and expenditures management.</li> <li>• Improved in PI-12 multi-year perspective in fiscal planning, expenditure policy and budgeting score of B to A.</li> </ul>
Outcome4: Improved predictability and Control in budget execution	<ul style="list-style-type: none"> <li>• Tax administration efficiency increases, as reflected by an increase in the ratio total taxcollection/IRD's executed budget. Improved of PI-15 effectiveness of the collection of tax payments score from D+ to at least B. Strengthened transparency of taxpayer obligations and liabilities and effectiveness of measures for taxpayer registration and tax assessment.</li> </ul>

	<ul style="list-style-type: none"> <li>• Improved score on: Quality of debt data recording and reporting,</li> <li>• Enhanced public integrity and governance structure in PPMO and key sector agencies;</li> <li>• Improved monitoring of the implementation of PPA;</li> <li>• Improved procurement performance of the key sector agencies;</li> <li>• Enhanced public procurement monitoring with civic engagement among all stakeholders; Improved PI-19 transparency, competition and complaint mechanisms in overall public procurement and upgrade score to A from B.</li> <li>• Improved PI- 21 and 22 of internal control and auditing system from C to atleast B.</li> </ul>
Outcome 5: Improved Accounting, Recording and Reporting	<ul style="list-style-type: none"> <li>• Improved PI-22, Dimensions (i): Regularity of bank reconciliations from C to B through better reconciliation of accounts on the revenue side.</li> <li>• Improved PI-24 quality and timeliness of in-year budget reports and upgrade its score to at least B+ from C+.</li> <li>• FCGO reduces time for preparing annual financial statements and submitting to Office of Auditor General within first trimester of the next F/Y.</li> <li>• Improved PI-25, dimension (i): Completeness of the Financial Statements and dimension (iii): Accounting standards NPSAS used, both from C to B.</li> <li>• Reduced time taken in reconciliation of data records (expenditure and revenue) of FCGO and Central Bank at transaction level as well as at central accounts level from more than six months today, to four months by 2018.</li> </ul>
Outcome 6: Improved External scrutiny and audit	<ul style="list-style-type: none"> <li>• Improved in financial auditing of 100 % coverage of government accounts with timely reporting on international standards and focusing on systemic and management issues and it will improve in PEFA indicator PI-27 (i) scope and nature of audit performed (including adherence to auditing standards) to B+ or A from B and score of Pi-27 (ii) timeliness of submission of final audit reports to</li> </ul>

	<p>legislature to at least B from C.</p> <ul style="list-style-type: none"> <li>Improved in follow-up on audit observations and recommendations to clear audit observations/irregularities by prompt response and corrective actions. It will improve the score of PI-27 (iii) evidence of follow-up on audit recommendations to at least B from C.</li> <li>Improved in PI-27 and 28 of legislative scrutiny of the annual budget and external audit reports score from D to at least B.</li> </ul>
Outcome7: Improved human resource management and capacity development for PFM	<ul style="list-style-type: none"> <li>Gap between current PFM competences and required ones has been reduced;and improved overall PFM performance.</li> <li>Enhanced and Professionalizedprocurement management capacity and other PFM capacity with sustainability;</li> </ul>
Outcome 8: Improved donor practices	<ul style="list-style-type: none"> <li>Improved in D-2 financial information provided by donors for budgeting and reporting on projects and program aid score to at least B or B+ from C+.</li> <li>Increased willingness of donors to channel aid through country systems (the annual average amount contributed by 5 largest on-budget donor increases) and improved in D-3 score to B from C.</li> <li>Improved in D-1 predictability of direct budget support to score B or C from score D+.</li> </ul>

Some major ongoing PFM reform activities are stated below:

Ongoing PFM Reform Activities	Responsible Agencies	SupportingDevelopment Partners
Implementation of LMBIS in central agencies/line ministries	MOF	The World Bank
Reform in Tax management system.	MoF/IRD	The World Bank
Maintenance and sustainability of TSA system.	MoF/FCGO	MDTF
Roll out of Commitment Recording in all 75 districts.	FCGO/Line Ministries	MDTF
Roll-out of NPSAS compliant financial statement	FCGO/Line Ministries	MDTF
Roll out of RMIS	FCGO/NRB/revenue collecting offices and Commercial Banks	MDTF

Implementation of CGAS (Piloting)	FCGO	MDTF
Supporting capacity building of PEFA Secretariat	MoF/PEFA Secretariat	MDTF
Strengthening IT system and FMIS	MoF/FCGO	MDTF
Capacity development of PFM Staffs	MoF/FCGO/PEFA Secretariat	MDTF
Different Reform activities in Local Bodies under MoFALD	MoFALD	ADB
Capacity development of NVC for technical oversight	NVC	ADB
Strengthening of e-GP of PPMO	PPMO	ADB

## 5.2 Challenges for Implementation

Strengthening Public Financial Management (PFM) is a key element of the GoN's vision of strengthening governance, optimizing outputs from public resources and for ensuring inclusive and broad-based development.

There are 119 reform action plans developed by the PEFA Secretariat by wider stakeholder consultation among which 23 are categorized as 'Immediate Priority'. **Immediate priority** covers the actions which needs immediate or quick start or action to be taken whether it has short-term, medium-term or long-term period of implementation. These immediate prioritised actions have the greatest and immediate impact on achieving the results of reform with very high significance. For instance, reform in internal control system is one of the immediate prioritised reform actions. If this action takes place immediately, it could be resulted great and immediate improvement in the budget execution and control. The internal control reform action implementation is also supported by the prevailing law/rules as well.

### Immediate Prioritized Reform Actions

1. Prepare and introduce Budget Management and Financial Responsibility Law.
2. Systems (BMIS, LMBIS, FMIS, RMIS and TSA) harmonized and interconnected by building interfaces.
3. Produce realistic sectoral ceilings by strengthening MTEF (with sector plan and costed strategy).
4. Prepare & implement medium-term revenue forecasting framework as part of the annual budget process.
5. Effectively implement commitment recording, reporting and control system.
6. Upgrade Cash Planning System integrated with TSA.
7. Implement NPSAS in all economic entities and enhance skill of finance staffs.
8. Empower sectoral ministries to enable them to fully utilize MTEF.
9. Introduce multi-years budgeting (MTEF) system in SNGs; & adopt GFS coding in all the revenue and expenditure of SNGs and to expand and enhance the TSA system in SNG level.
10. Review current PFM systems and procedures and prepare roadmap in line with the federal structure as provisioned in the Constitution.
11. Prepare and implement phase wise plans for performance or output-based budget system (PBB).
12. Prepare and implement an action plan to upgrade, strengthen and optimum utilization of present FMIS to IGFMS.
13. Strengthen and roll out the revenue management information system (RMIS) in all districts.
14. Make provision to send authorization letters, approved programs and sources of the expenditure electronically simultaneously with the existing system.
15. Prepare & Implement an action plan to establish a specialized PFM Institute to enhance the capacity of PFM staffs.
16. Prepare & operationalize a plan of Establishing DMO.
17. Prepare an action plan for the implementation of a separate 'Public Procurement Enhancement Project' to strengthen overall public procurement management system:

- |  |
|--|
| 18. Prepare & Implement comprehensive plan of action for reform of The Internal Control System of GoN.<br>19. Prepare & implement a comprehensive plan of action for Internal Auditing System reform.<br>20. Upgrade and implement of CGAS in all spending units of GoN.<br>21. Develop the manual of project accounts with a common use of formats regarding financial reporting and monitoring. (Donor Funded).<br>22. Prepare and implement an action plan for enhancing the final audit.<br>23. Prepare and practice the government accounting manual. |
|--|

The proper sequence for PFM starts with ensuring strong basic systems for compliance, full MTEF based budgeting, synchronization of FMIS with TSA LMBIS, BMIS, RMIS and CGAS, internal control system, improving internal auditing, external audit, improving in parliamentary oversight and the stewardship of public money. Once these are functioning well, it is reasonable to start evolving to more advanced and sophisticated techniques such as commitment accounting, performance based budgeting (PBB) and promoting discretion to achieve policy but doing so by building on the features of the well-functioning basic systems. In this process of reform, countries need to bring together the right people: government officials, experts' services and technical assistance, to get the job done.

This approach calls for the use of various methodologies to analyze PEFA scores, for example by dividing them into formal and functional features. Formal features are the ones countries tend to achieve first. They can achieve a C or better score by passing a new law or announcing a new process, even if it is not implemented. Formal features tend to deal with the early phases of the budget cycle. By contrast, functional features deal with controls and oversight of actual spending, which is more difficult to achieve. Analyses of PEFA assessments worldwide show that most countries perform better on formal than functional features. This is also true in the case of Nepal. Most of the D scores were for functional features such as PI-7, Extent of unreported government operations, PI-15, Effectiveness in collection of tax payments, and PI-21, Effectiveness of internal audit. On the other hand, Nepal had good scores on other functional features, including a much improved A score on PI-23, Availability of information on resources received by service delivery units. Details on more on this methodology are provided in Annex 1.

The strategy for moving forward in Nepal recognizes and improves on what exists to the extent possible, changing things that need to be changed, and building on this by sustaining the improvements and changes made. Developing country governments don't always recognize the strengths of their systems. In some cases, the systems may be a good fit for context, but poorly executed. In other cases, processes may be improved to enhance performance, as the recent second PEFA assessment found was the case in many areas of PFM in Nepal. Some of these improvements have been supported by the MDTF, a process we hope to continue. But the Nepal PFM reform experience also shows that some home grown processes could benefit from reform. For example, the rollout of the Single Treasury Account (TSA) across 75 districts was an innovation first introduced by the IMF and then supported by the MDTF. It helped to centralize payments at District Treasury Controller Offices and close down 14,000 bank accounts, leading



to 100 percent coverage of the budget. Real time budget expenditures are now published on the FCGO website, thus improving the transparency of public finances and aiding decision making by line managers. Sustaining reforms such as the TSA is crucial, as will be supported through PFMRP-II. Maintaining what has been achieved may not be considered as glamorous as adopting new, state of the art systems. The process must be led by civil servants and largely paid for by countries themselves. It is crucial that key agencies have the absorptive capacity to play key roles in the reform process, and that the work is properly coordinated. An important part of sustainability is learning what works in a country and what does not; successful reform uses this learning, rather than application of blueprint approach.

## **6 Operational Strategy**

Once the strategy is endorsed by the PEFA Steering Committee, the lead agencies as outlined in Annex 2 will work with the concerned agencies to come up with an operational plan and estimated budget.

The second phase PFM Reform Plan developed herein for discussion by the Working Committee and other instances is meant to take over from the first phase of the program while also recognizing the ongoing implementation of a number of activities. Though this approach is still relevant, the implementation process will have to take into account the recent decision to extend by one more year the period for first Phase 1 PFM RP.

As with the Phase 1 PFM RP, GON will continue to rely on its partners to support the PFM reform agenda, both bilaterally and through the multi-donor trust fund (MDTF). It is important that there be a seamless transition between Phase 1 and Phase 2. The estimated support needed from partners to support Government efforts to achieve the goals of the strategy is: Short term (1-2 years): US\$23.75 million; Medium term (3-5 years): US\$25.70 million; and Long term (above 5 years): US\$18.60 million. These are tentative costs at a broader level as a detailed strategy of implementation and design of each of these sub-projects is yet to emerge. These costs will need to be calibrated during the preparation and appraisal of these sub-projects by Government of Nepal and other agencies (Implementing agencies, DPs). Details on these tentative costs are available in Annex 2.

### **6.1 GoN Policy Commitment**

When the GON released the PEFA report in May 2015, it clearly made the commitment to continue the PFM reform program side by side with its ongoing support of reconstruction and rehabilitation efforts of the country. By reiterating the premise that a credible PFM system is one of the key foundations for any accountable government and recognizing the contribution of the first phase of PFM reforms in up-scaling the performance of Nepalese PFM system, the Government looks forward firming up the Second Phase PFM Reform Actions and begin its implementation in earnest.

Given the commitment of the Government to pursue the reform plan agreed and developed, further efforts will be directed towards building the momentum to implement the reform plan activities in earnest. The reform plan has been taken note of the PFM activities penciled in the current budget for fiscal year 2072/73.

## **6.2 Implementing and Monitoring strategy**

A key step would include the preparation of detailed project reports for each of the project identified by line ministries. This would help in costing and in defining the required implementation and coordination arrangements. The suggested priority areas under this second phase of the PFM Reform Plan also presented developed in this report have been extracted from the reform action plans identified and developed from the PEFA report. They would equally be the subject of further discussions by different entities including the Working Committee and similar other instances. The implementation process will have to take into account the recent decision to extend by one more year the period for first Phase 1 PFM RP. Taking into account the lesson learned experience of implementation of first phase PFM Reform Action Plan, the second phase has been clustered in several sub-project wise reform actions further fine tuning from "Details of Nepal's Second Phase PFM Reform Action Plan Linked with PEFA Indicators " Annex 5 in order to create ownerships by leading agencies for effective implementation of all the action plan with achieving their sustainability. The concerned other line ministries, departments and agencies shall support in implementation of these sub-project. The details of clustering of second phase PFM Reform action plans are depicted in Annex:2 and its summary are presented as follows:

### **Clustering of PFM Reform Action Plan on Sub-Project Wise:**

As per the Annex 2, following Sub-Project has been clustered:

- Sub-Project 1. : Ministry of Finance (MoF), Budget and Program Division led Sub-Project - 30
- Sub-Project 2. : Ministry of Finance (MoF), Revenue Management Division led Sub-Project - 4
- Sub-Project 3. : Office of the Auditor General (OAG) led Sub-Project - 1
- Sub-Project 4. : National Planning Commission (NPC) led Sub-Project - 7
- Sub-Project 5. : Office of the Public Accounts Committee (PAC) led Sub-Project - 5
- Sub-Project 6. : MoFALD and other Line Ministries led Sub-Project - 17
- Sub-Project 7. : Ministry of Education (MoE) led Sub-Project - 3
- Sub-Project 8. : Ministry of Health and Population (MoHP) led Sub-Project - 1
- Sub-Project 9. : Public Procurement Monitoring Office (PPMO) led Sub-Project - 2
- Sub-Project 10. : Financial Comptroller General Office (FCGO) led Sub-Project - 35
- Sub-Project 11. : PEFA Secretariat led Sub-Project - 7
- Sub-Project 12: Civil Society Organization (CSO) led Sub-Project- 3
- Sub-Project 13: Institute of Chartered Accountant Association (ICAN) led Sub-Project-4

All the reform actions will be implemented on the scheduled time period by the concerned implementing agencies with due processes to achieve the expected outcomes. For these purposes,

the PEFA Secretariat will continue to engage with all stakeholders in ensuring that each area of reform is resolutely taken forward. The role of the PIU and DPIU will continue to be beefed up so that can work closely with different agencies during the implementation of the reform program, concerned line ministries and agencies will be fully activated and engaged and their reform implementation will be coordinated by the PEFA Secretariat.

As per the "Operating Guidelines and Procedures" the monitoring of the implementation of PFM reform action will be performed by the PEFA Secretariat, therefore, monitoring and evaluation of the implementation of all the PFM reform actions will be done by the PEFA Secretariat with established monitoring mechanisms as well as by mobilizing its helping hands- PIUs and DPIUs.

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## **Annex 1: Formal vs. Functional Process Reforms**

One way of looking at some aspects of basic and advanced processes is to use a methodology to analyze different types of PEFA scores, dividing them into three pairs of indicators or dimensions. The first pair contrasts PEFA dimensions where a C or better score can be earned by a new law, or announcing a new practice, even if it is not implemented (*de jure*) with dimensions that require actual implementation or significant engagement (*de facto*) 27. For example, in the case of *de jure* dimension PI-11 (i), a C score is attained as long as an annual budget calendar exists, even though there may be substantial delays in implementation, with not enough time allowed to budget entities to complete detailed estimates. On the other hand, *de facto* dimension PI-12 (i) requires that two year forecasts of fiscal aggregates are actually produced on a rolling annual basis. 86. The second pair contrasts PEFA dimensions relating to budget preparation such as strategic budgeting (multi-year forecasting, strategic planning, investment planning, debt planning); annual budget preparation; legislative analysis of the annual budget; and the structure of formal budget documents on the one hand (upstream), and dimensions relating to budget execution such as resource management (including cash inflow and outflow management, procurement, payroll); internal control, internal audit and monitoring; accounting and reporting; external audit; and legislative analysis of audit reports on the other (downstream). The former deals with the earlier stage of the budget planning cycle, visible to donors and investors, and would be expected to come up against less resistance than the latter aspects, which deal with controls and oversight of actual spending. For example, in the case of upstream indicator PI-5, a C score is attained as long as the budget is classified using GFS or comparable standards: a formal practice that can be monitored by donors and investors. On the other hand, downstream elements deal with more sensitive issues of managing and monitoring actual expenditures. For example, in the case of downstream indicator PI-7, a C score requires that unreported extra-budgetary expenditure be no more than 5-10 percent of total expenditure. This reduces the opportunity for non-transparent slush funds that in many countries are much greater than this amount, and may be strongly resisted by well-connected interests benefiting from such arrangements. 87. The third contrasts PEFA aspects under the control of central, regulatory bodies, like the Ministry of Finance (concentrated), with those where multiple agencies or subnational authorities need to be engaged (*de-concentrated*). For example, in the case of concentrated dimension PI-12 (ii) a C score is attained as long as a debt sustainability analysis at least for external debt, a technical job that can be done by a small team of technical staff, has been undertaken during the last three years. On the other hand, the *de-concentrated* dimension PI-12 (iii) requires costed sector strategies for several major sectors, requiring participation of several budget entities. 88. While there is overlap among the three pairs, they broadly illustrate form vs. function. As a general rule, *de jure*, upstream and concentrated aspects comprise the formal features, while *de facto*, downstream and *de-concentrated* comprise the functional features of a system. Static analysis by independent researchers of PEFA scores indicates that C

or better scores for the formal features<sup>2</sup> are more commonly achieved than such scores for functional features. The presumed explanation is that formal progress can be achieved through adopting a new law, regulation, or technical tool, or focusing on no more than a few agencies, or at an early stage in the budget cycle; functional progress is more difficult to achieve because it is more difficult to coordinate the work of many agencies, and because reforms actually implemented are more difficult to monitor, and may threaten rents and face greater political and bureaucratic opposition.

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<sup>2</sup> The designations “formal” and “functional” refer to the overall tendency of an indicator or dimension, some of which combine both formal and functional features. The designations do not constitute recommendations as to the sequencing of reforms, as functional reforms may need to be started early

## Annex 1: Sub-Project wise Second Phase PFM Reform Action Plan (2016/17-2025/26)

### Summary of Sub-Project wise Second Phase PFM Reform Action Plan in Nepal

Sub-Project No.	Project Leading Ministry/Agency	Number of Action Plan	No. of Sub-Activities	Tentative Estimated Costing in NRS ,000			
				Short Term	Medium Term	Long Term	Total
1	Ministry of Finance (Budget)	30	16	257,000	635,000	80,000	972,000
2	Ministry of Finance (Revenue)	4	34	485,000	545,700	215,000	1,245,700
3	Office of the Auditor General (OAG)	1	19	695,000	155,000	40,000	890,000
4	National Planning Commission (NPC)	7		40,000	120,000	20,000	180,000
5	Office of the Public Accounts Committee (PAC)	5		25,000	21,000	10,000	56,000
6	MoFALD and Other Line Ministries	17	0	170,000	315,000	290,000	775,000
7	Ministry of Education (MoE)	3	9	15,000	35,000	150,000	200,000
8	Ministry of Health and Population (MoPH)	1	7	5,000	15,000	75,000	95,000
9	Public Procurement Monitoring Office (PPMO)	2	17	82,000	132,000	12,000	226,000
10	Financial Comptroller General Office (FCGO)	35	7	654,000	637,000	1,022,000	2,313,000
11	PEFA Secretariat	7	1	62,000	90,000	55,000	207,000
12	Civil Society Organization (CSO)	3	0	40,000	40,000	40,000	120,000
13	Institute of Chartered Accountants (ICAN)	4		35,000	35,000	-	70,000
	Total	119	110	2,565,000	2,775,700	2,009,000	7,349,700
	Equivalent US\$ (1 US\$=NRS 108.00)			23,750.00	25,700.93	18,601.85	68,052.78



NRS in  
,000

PEFA Indicator	Ref. Actions	Sub-Project Action	Component	Short Term	Medium Term	Long Term
			<b>Sub-Project 1: Lead by Ministry of Finance (MoF), Budget &amp; Program Division and IECCD</b>			
			<b>Objective:</b> To sustainably improve the credibility and transparency of fiscal and revenue management, with a focus on improved legal framework, budgeting process, resource mobilization through information systems, SOEs, government debt and capacity development.			
1,25 &10	1&39 & 90	1	Prepare and introduce Budget Management and Financial Responsibility Law.			
2	7	(i)	Introduce threshold of budget for contingency expenditure by law. (ST)			
9	37	(ii)	Establish a institutional mechanism to monitor and analyze fiscal risk covering all AGAs, SOEs and other national agencies including subnational ones; (ST)	112,000		
27	92	(iii)	In the budget preparation process, add a provision or an additional step regarding involve Parliamentarian in pre-budget meetings. (ST)	-		
7	29	(iv)	Make policy regarding the use and implementation of extra budgetary funds managed by AGAs, Universities, Welfare funds etc; (ST)	-		
6	23	(v)	Develop and implement a policy framework to capture all the fiscal information at local government level for macro-economic analysis.(ST)	-		
16	54	(vi)	Make provision to send authorization letters, approved programs and sources of the expenditure electronically simultaneously with the existing system; (ST)	-		
16	53	(vii)	Make legal provision of budget expenditure authorization deemed as provided once the budget is approved by the Parliament; (ST)	-		
16	55	(viii)	Initiate budget surrender policy and its implementation system for effectiveness of Mid-In-Year Budget Review and Adjustment. (ST)	-		
8	34	2	Review current PFM systems and procedures (budgeting processes of expenditures and revenues, allocation of resources, transfer of budget, etc.) and prepare roadmap in line with the federal structure as provisioned in the Constitution, defining roles and responsibilities of key stakeholders including civil society. (ST)	20,000		
7	28	3	Report on tax expenditures and quasi-fiscal activities produced as part of public expenditure; (ST)	-		
D-1	97	4	Depute an officer to maintain records and reports in government system capturing the detailed forecasts or planned disbursement by donors as and when they are available and make donor reporting to the AMP mandatory; (ST)	-		
D-1	98	5	Redesign the BMIS to record information on quarterly estimates of both the government and donor fund; (ST)	5,000		
D-1	99	6	Redesign the FMIS to record the information on annual disbursement; (ST)	5,000		

D-1	103	7	Request to Donors to provide information on planned disbursements early in fiscal year;(ST)	-		
7	25	8	Add legal provision in the fiscal rule to cover in the central government's consolidation to all institutions – trusts, agencies, SOEs, autonomous bodies; (ST)	-		
2	10	9	Amendment of Financial Procedures Act (FPA) in regards to the virement authority of line ministries & MoF; (ST)	-		
8	34	10	Begin implementation of PFM-federalism roadmap. (ST)	50,000		
6	22	11	Disclose exchange rate assumptions in the Budget Speech.(ST)	-		
D-3	110	12	Upgrade systems to record the information of on-budget direct payments, i.e., direct payment uses through the national system. Direct funding directly implemented by the donors should not be mixed into on-budget direct payment; (ST)	5,000		
12	46	13	Develop action plan for enhancing the institutional capacity for Debt Sustainability Analysis (DSA); (ST/MT)	10,000	10,000	
1	2	14	Systems (BMIS, LMBIS, FMIS, RMIS and TSA) harmonized & interconnected by building interfaces. (ST/MT)	20,000	20,000	
17	59	15	Prepare and operationalize a plan of establishing Debt Management Office; (ST/MT/LT)			
17		(i)	Make public debt management part of overall fiscal policy management; (ST)	-		
17		(ii)	Integrate debt management function to cash planning; (ST)	-		
17		(iii)	Prepare program for re-installation of CS-DRMS or other specialized software and sufficient training provision to update debt records; (MT)		200,000	
17		(iv)	Consolidate all current debt management and operation units under one roof at the debt management office under FCGO (the Ministry of Finance) to make it more effective. (MT)		200,000	
17		(v)	Prepare and implement methodology for preparing debt service forecasts; (MT)		25,000	
17		(vi)	Establish integrated approach to manage time of internal borrowing and overall debt level.(MT)		-	
17		(vii)	Establish and implement a electronic link/interface between the NRB, MoF& FCGO to manage both fiscal and monetary policy management and to develop a system of weekly information sharing. (MT)		100,000	
17		(viii)	Review internal debt policy and link with cash management and liquidity position monitoring by a separate Debt Management Office; (MT)		10,000	
3	12	16	Implement capacity development programs for strengthening revenue forecasting staffs; (ST/MT/LT)	10,000	10,000	10,000
D-1	100	17	Integrate and ensure automatic data sharing among the AMP, BMIS and FMIS; (ST/MT/LT)	20,000	20,000	20,000
7 & D-1	26 & 102	18	Effectively implement new development cooperation policy to channel all aid through the country system, on budget and on Treasury. (ST/MT/LT)	-	-	-

D-3	111	19	Strictly implement Development Cooperation Policy, 2014 and ensure mandatory and timely reporting of the planned disbursement and actual disbursement into AMP and use of country system. (ST/MT/LT)	-	-	-
D-3	113	20	Implement Aid Management Platform to ensure transparency and accountability of all development cooperation. (ST/MT/LT)	-	-	-
D-2	108	21	Prepare and submit project account on time to ensure timely audit and submission of audit report to the donors. (ST/MT/LT)	-	-	-
D-2	109	22	Submit withdrawal application timely to reduce reimbursement due. (ST/MT/LT)	-	-	-
D-1	101	23	Allocate a separate budget code to identify the budgetary support flow donor-wise; (MT)		-	
1	5	24	Formulate standard of expenditure & determine per unit cost to make realistic budget; (MT)		10,000	
D-2	106	25	Prepare Nepal Procurement Guidelines of international standard and expand its use to all donors working in Nepal; (MT)		10,000	
D-2	107	26	Use PFM Assessment Framework (PEFA Assessment Indicators) as tools for monitoring progress of predictability, reporting and use of country system. (MT)		10,000	
D-2	105	27	Assess effectiveness of ongoing SWAp (Sector-wide Approach) in Education and Health Ministries and select at least 2 Ministries for implementation of SWAp on basis of findings of assessment .(MT/LT)		10,000	10,000
D-2	104	28	Compulsorily report physical progress into AMP on trimester basis. (MT/LT)		-	-
D-3	112	29	Prepare a ODA agreement template acceptable to the government and the Donor to channel all donor assistance through the Government's budgetary system; (LT)			20,000
1	4	30	Formulate and implement umbrella grant policy for allocating Grants to the SNGs and AGAs; (LT)			20,000
			<b>Outcome targets:</b>			
			Improved budget credibility by improving budget out turns and consistency of spending by reducing amount of total spending in the last month of F/Y.. Availability of budget management and financial responsibility law regulating budget process for timely budgeting and expenditures. PEFA indicator PI-2 (i) Extent of the variance in expenditure composition during the three years, excluding contingency items score improved to B or B+ from C+.			
			Improved predictability in availability of funds for commitment of expenditures and improved in real time data on government cash balances for decision on borrowings. Improved PEFA indicator 16 and 17 score to B from C+.			
			Improved score on PI-9, dim 1: Extent of central government monitoring of autonomous government agencies and public enterprises, from C to B.			
			Improved score on PEFA PI-17, dimension (i): Quality of debt data recording and reporting, from C to B			
			Increased willingness of donors to channel aid through country systems (the annual average amount contributed by 5 largest on-budget donors.			
			Total of MoF (Budget and IECCD)	257,000	635,000	80,000

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PEFA Indicator	Ref. Actions	Action	Component	Short Term	Medium Term	Long Term
			<b>Sub-Project 2: Lead by Ministry of Finance (Revenue Management Division)</b>			
			<b>Objective:</b> to sustainably improve the credibility and transparency of fiscal and revenue management, with a focus on improved legal framework, information systems, tax payers' accessibility, strengthening tax and custom management and capacity development.			
<b>13</b>	<b>50</b>	<b>1</b>	<b>Prepare &amp; Implement a Comprehensive Plan of Reforms of Overall Revenue Management System</b>			
			<b>Improve communication to taxpayers:</b>			
13		(i)	Update custom act and regulations; (ST)	-		
13		(ii)	Effectively implement simplified guidelines on Income Tax Act and conduct taxpayer education programs; (ST)	15,000		
13		(iii)	Regular update of Inland Revenue Department and Custom Department website of tax acts, procedures, regulations, guidelines, etc. (ST)	20,000		
13		(iv)	Make more easy and accessible web-based personal taxpayers' data and submission of reports; * (ST)	100,000		
13		(v)	Provide taxpayer's registration status & filing/non-filing information by SMS; (ST)	10,000		
13		(vi)	Establishment of Client Service Desk in some more Custom Offices, (ST)	25,000		
14		(vii)	Make legal provision of penalty for non-participation in tax system more effective; (ST)	-		
14		(viii)	Revise and effectively implement tax audit manual; (ST)	20,000		
15		(ix)	Conduct awareness programs of RMIS in policy and top management levels before rolling out in all districts; (ST)	-		
13		(x)	Conversion of web-based ASYCUDA system in ASYCUDA World in all custom offices. (ST)	100,000		
13		(xi)	Expansion of on-line (web-based) monitoring and evaluation system in custom; (ST)	100,000		
15		(xii)	Prepare and implement annual work plan of arrear collection; (ST)	10,000		
13		(xiii)	Implementation of Import Export Code (IEC) in customs; (ST)	10,000		

15		(xiv)	Improve revenue reconciliation system through Revenue Management Information System (RMIS) in all districts as well as diplomatic mission; (LT)			
1		2	Prepare and implement medium-term revenue forecasting framework as part of MTBF and annual budget process; (ST)	25,000		
1		3	Implement capacity development programs for strengthening revenue forecasting staffs; (ST)	50,000		
1		4	Prepare annexure and implement tax expenditure report as part of budget (ST)	-		
	<b>50</b>		Prepare & Implement a Comprehensive Plan of Reforms of Overall Revenue Management System			
13		(xv)	Establishment of <u>Tax</u> Revenue Board; (MT)		100,000	
14		(xvi)	Extend PAN registration to all types of trading activities, other sectors, both domestic and foreign, tendering and procurement activities by government and SNGs; (MT)		10,000	
13		(xvii)	Transformation of physical control system to self- removal system in excise; (MT)		-	
13		(xviii)	Establishment of a permanent tax settlement committee. (MT)		25,000	
13		(xix)	Institutionalize valuation system at all custom offices through training and necessary facilitation; (MT)		27,000	
13		(xx)	Establish an authorized unit for implementing court decision; (MT)		-	
13		(xxi)	Strengthen & revitalize the Revenue Tribunal to make more effective and efficient; (MT)		7,700	
13		(xxii)	Establishment of single tax code. (MT)		5,000	
15		(xxiii)	Review and expand the incentive system to the taxpayers to bring in the tax net comfortably; (MT)		20,000	
15		(xxiv)	Implementation of compulsory submission of Income Tax Return for high net-worth individual. (MT)		25,000	
14		(xxv)	Develop the system of e-Generation of Taxpayer's information/status report as needed (MT)		25,000	
14		(xxvi)	Make taxpayer's registry with Permanent account number (PAN) at all government agencies compulsory for all transactions; (MT)		-	
14		(xxvii)	Strengthen the valuation system in line with World Trade Organizations' (WTO) valuation principles in order to maximize revenue collection; (MT/LT)		51,000	-
14		(xxviii)	Reform to make easy access of e-filing of returns, e-TDS and e-PAN services, online and offline service. (MT/LT)		50,000	-
15		(xxix)	Integrate database of Customs, DRI, and IRD through interface and interconnection. (MT/LT)		100,000	-
15		(xxx)	Develop and apply integrated software for Income Tax, VAT and Excise Duty at IRD. (MT/LT)		100,000	-

15		(xxxi)	Write-off certain old arrears based on some procedures. (MT/LT)		-	-
			Transparency and effectiveness of tax assessment			
13		(xxxii)	Make provision of online registration & update of tax payer's data with necessary integration among different types of taxes; (LT)			5,000
13		(xxxiii)	Link the baseline information with utility and asset records to capture the probable taxable amount; (LT)			100,000
14		(xxxiv)	Make Taxpayers' access of transactions be recorded at Central Database System on permission through other agencies; (LT)			10,000
15			<ul style="list-style-type: none"> <li>Effectiveness of tax collection</li> </ul>			
15		(xxxvi)	Make compulsory use of p-PAN and e-TDS in all agencies; (LT)			50,000
15		(xxxv)	Prepare an action plan to improve the existing database to capture the report of the tax arrears separately for each FY; (LT)			50,000
			<b>Outcomes:</b>			
			Improved tax and custom management.			
			Improved in PI-13 (iii) existence and functioning of a tax appeal mechanism score to A from B.			
			Tax administration efficiency increases, as reflected by an increase in the ratio total tax collection/IRD's executed budget.			
			Improved tax arrears and collection of tax an improved PEFA indicator 15 score to at least B from D+.			
			Total of MoF (Revenue)	485,000	545,700	215,000

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PEF A Indic ator	Ref. Actions	Actio n	Component	Short Term	Medium Term	Long Term
			<b>Sub-Project 3: Lead by the Office of the Auditor General (OAG)</b>			
			<b>Objectives:</b> To deepen audit processes at the national and local levels to improve transparency and accountability.			
26	90	<b>1</b>	<b>Prepare and implement an action plan for enhancing the final audit addressing to improve following subjects:</b>			
26		(i)	Strengthen the follow up system through feedback to the audited entities on the previous years' audit observations & their actions in the current year audit report. (ST)	0		
26		(ii)	Establish a unit (Audit Committee) in all line ministries with assigned duties to settle the audit irregularities within stipulated time frame as per the existing legal provision. (ST))	0		
26		(iii)	Establish Regional/Provincial Offices of OAG to facilitate the auditing and clearance of audit irregularities (observations). (ST)	500,000		
26		(iv)	Review and update the existing Risk based and Performance Audit Guidelines/Manual. (ST)	5,000		
26		(v)	Make legal provision that the Secretary (as a chief accounting officer) has authority to make clearance of irregularities with due investigation and recommendation. (ST)	0		
26		(vi)	Improve the mandate and legal provision to cover all the receipt and payment of the government by the audit. (ST)	0		
26		(vii)	Implement the ISSAIs (international standard for supreme audit institutions) based audit system to improve the quality of audit. (ST)	0		
26	40 & 91	(viii)	Review the audit reports of AGAs, PEs and other sub-national agencies by OAG as a regulator and monitor. (ST/MT/LT)	5,000	5,000	5,000
26		(ix)	Trainings to auditors to develop capacity for risk-based and performance-based audit approach. (ST/MT/LT)	50,000	5,000	5,000
26		(x)	Develop & implement follow-up audit planning accompanied by an annual audit plan & issue necessary format to collect information on settlement of audit observations. (ST/MT/LT)	0	0	0
26		(xi)	Use ICT for audit documentation and follow up of audit report. (ST/MT)	15,000	15,000	
26		(xii)	Restructure the organizational set up to address the federal restructuring of the state. (ST/MT)	100,000	100,000	

26		(xiii)	Effectively Implement the existing Risk based, financial audit and Performance Audit Guidelines/Manual. (ST/MT/LT)	10,000	10,000	10,000
26		(xiv)	Develop the training facilities and train the auditors to develop professional capacity for audit. (ST/MT/LT)	10,000	10,000	10,000
26		(xv)	Introduce policy regarding corrective measures for the entities (non-auditing) which fail to submit the accounts for audit. (MT)		0	
26		(xvi)	Redefine the reporting mandate of presenting annual performance report and audit report. (MT)		0	
26		(xvii)	Enhance relationship with stakeholders with proper communication. (MT)		0	
26		(xviii)	Conduct meetings and discussion programs to make clear of audit backlog of SOEs and other extra-budgetary funds. (MT)		0	
26		(xix)	Study and develop procedures and system for audit of local level government. (MT/LT)		10,000	10,000
			<b>Outcomes:</b>			
			Improved in financial auditing of 100 % coverage of government accounts with timely reporting on international standards and focusing on systemic and management issues and it will improve in PEFA indicator PI-26 (i) scope and nature of audit performed (including adherence to auditing standards) to B+ or A from B and score of Pi-26 (ii) timeliness of submission of final audit reports to legislature to at least B from C.			
			Improved in follow-up on audit observations and recommendations to clear audit observations/irregularities by prompt response and corrective actions. It will improved the score of PI-26 (iii) evidence of follow-up on audit recommendations to at least B from C.			
			Total of OAG	695,000	155,000	40,000



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PEFA Indicator	Ref. Actions	Sub-Project Action	Component	Short Term	Medium Term	Long Term
			<b>Sub-project 4: Lead by National Planning Commission (NPC)</b>			
			<b>Objective:</b> To improve budget credibility, comprehensiveness and transparency through enhancement of medium term perspective, frameworks and use of ICT system.			
2	10	1	Make provision of formula based budget allocation mechanism in the federal setting (ST)	20,000		
2	6	2	NPC produces realistic sectoral ceilings by strengthening MTEF with sector plans and costed strategies; (ST/MT/LT)	20,000	20,000	20,000
6	21	3	Prepare and introduce long term fiscal policy objectives and programs to guide investment for the government decisions; (MT)		10,000	
12	43	4	Formulation & implementation of medium- term fiscal objectives and strategy with quantitative targets for making more effective annual budget process; (MT)		10,000	
12	44	5	Preparation and use of medium-term macro-economic forecasts as a basis for annual and medium-term budgets.(MT)		10,000	
12	45	6	Prepare and implement plans for performance or output-based budget system (PBB) &, over the long run, a results-oriented system at central level and strengthen at local level. (MT)		50,000	
2	10	7	Established the direct linkage and ownership between NPC, MOF and sectoral ministries in the use of LMBIS / MTEF (MT)		20,000	
			<b>Outcomes Targets:</b> Improved in realistic budget ceiling with realistic budget composition to gain minimum variance in expenditures, improved in management of government investment guided by fiscal policy objectives, comprehensiveness and transparency of budget documentation and programs. Improved in policy-based budgeting through effective use of medium term frameworks in budget processes. Improved in PEFA indicator PI-12 (iii) existence of costed sector strategies and (iv) linkage between investment budget and forward expenditure estimates to atleast B from C.			
			<b>Total of NPC</b>	40,000	120,000	20,000

			<b>Sub-Project 5: Lead by Public Accounts Committee Office (PAC)</b>			
			<b>Objectives:</b> To improve in timely discussion on ex-ante budget approval by the Parliament and discussion on audit reports, quality of recommendations and follow-up of the decisions made by the PAC.			
27	91	1	Develop and conduct capacity development programs for strengthening oversight functions of the Parliament to carry out review of the fiscal policy, budgeting and expenditures control. (ST/MT/LT)	5,000	5,000	5,000
28	93	2	Prepare and implement institutional /capacity development program of PAC and strengthen collaboration with OAG to ensure timely examination of audit reports; (ST/MT)	10,000	10,000	
28	94	3	Develop and implement specific Operational Procedures for PAC; (MT)		1,000	
28	95	4	Develop & execute a monitoring (independent) system to monitor the implementation of PAC recommendations and directives.(ST/MT/LT)	5,000	5,000	5,000
28	96	5	Review adequacy & reliability of audit system by peer review mechanism/by PAC. (ST)	5,000		
			<b>Outcome:</b> Improved in PEFA indicator No.27 and 28- legislative scrutiny of annual budget law and external audit reports performance score from D to atleast B.			
			Total of PAC	25,000	21,000	10,000

						NRS in ,000
PEFA Indicator	Ref. Actions	Action	Component	Short Term	Medium Term	Long Term
			Sub- Project 6: Lead by Ministry of Federal Affairs and Local Development (MOFALD)/Other Line Ministries			
			Objectives: Strengthen the budgeting, expenditure control, accounting and reporting system of SNGs and line ministries			
8	35	1	Prepare and implement an action plan to improve the bank reconciliation system of SNGs. (ST)	1,000		
8	35	2	Upgrade, expand and effectively implement IT based accounting system in all the DDCs/Municipalities/VDCs of SNGs. (ST)	50,000		
8	35	3	Prepare and implement an action plan to improve the present internal auditing system of local bodies. (ST)	20,000		
8	31	4	To expand and enhance the TSA system in SNG level and develop the consolidated financial statement of SNGs. (ST/MT/LT)	50,000	10,000	100,000
20	66	5	Prepare internal control manual/guideline by all line ministries and implement for enhancing degree of compliance with rules for processing and recording financial transactions.(ST/MT/LT)	20,000	50,000	50,000
4	13	6	Implement commitment recording and reporting system for better budget expenditures management in the line ministries. (ST/MT/LT)	20,000	20,000	20,000
5	18	7	Develop capacity for producing NPSAS based consolidated financial statements on annual basis by all the line ministries and government central agencies (ST/MT/LT)	20,000	20,000	20,000
6	20	8	Empower sectoral ministries to enable them to fully utilize MTEF. (ST/MT)	10,000	10,000	
2	9	9	Prepare and implement training plan to capacitate line ministry personnel in producing realistic budgeting & expenditures. (ST/MT)	50,000	50,000	
1	3	10	Line ministries introduce MTBF to support budget system reform; (MT)		100,000	
8	31	11	Add legal provision to introduce multi-years budgeting (MTEF) system in SNGs.(MT)		20,000	
8	32	12	Adopt GFS coding in all the revenue and expenditure of local bodies and sub-national governments. (MT)		10,000	
6	24	13	Identify and incorporate SNGs level key economic (macro) indicators and align with FMIS (MT)		-	
2	8	14	Follow the national guidelines for appraising all the major capital investment projects as per the objective economic analysis; (MT)		-	
		15	Establish tracking system of achievements of service delivery through MTEF and LMBIS (MT)		25,000	

11	40	16	Effectively implement the budget system to further enhance and ensure bottom-up approach in programming and budgeting. (MT)		-	
8	24 & 32	17	Develop SNGs' FMIS and harmonize and interlink the central government FMIS and SNGs' FMIS; * (LT)			100,000
			<b>Outcome targets:</b>			
			Strengthened budget credibility.			
			Improved in transparency of inter-governmental fiscal relations.			
			Improved score on PEFA PI-8. transparency of inter-governmental fiscal relations. from C+ to at least B.			
			Improved score on PEFA PI-12, dimension (iii): Existence of costed sector strategies, from C to at least B			
			Total of MoFALD and Line Ministries	170,000	315,000	290,000

			<b>Sub-Project 7: Lead by Ministry of Education (MoE)</b>	<b>Short Term</b>	<b>Medium Term</b>	<b>Long Term</b>
			<b>Objectives:</b> To improve the resource availability by the service delivery units of MoE.			
23	74	1	Prepare & implement an action plan for enhancing service delivery system in District Education Office (DEO) to School level units			
		(i)	Make assurance of budget ceiling to the service delivery units of education by ministry with the supports of MoF and NPC; (ST)	-		
		(ii)	Conduct Public Expenditure Tracking Survey (PETS) on availability of funds for commitment of expenditure in selected sector or area (random sample/each year); (ST/MT/LT)	5,000	5,000	5,000
		(iii)	Prepare and provide a simplified handbook on financial management to schools; (MT)		10,000	
		(iv)	Make Flash Reports of schools and health information more reliable and realistic. (MT)		10,000	
		(v)	Make policy of one window system to overcome the challenges of overlapping the funds to service delivery unit; (MT)		-	
		(vi)	Carry out mapping using and linking with Geographical Information system (GIS) for deciding school establishment and mergers; (LT)			25,000
		(vii)	Link Education Management Information System (EMIS) with GIS mapping through interface and interconnection to make Child Tracking System, etc.; (LT)			50,000
		(viii)	Ensure sufficient resources and efficient human resources for financial management of GoN through capacity assessment and development; (LT)			50,000
		(ix)	Conduct National Assessment for Student Achievement (NASA) and Performance Audit of Schools and DEOs through Education Review Office (ERO) independently; (LT)			10,000
	74	2	Create individual bank accounts of teachers and make salary payments through bank accounts. (ST)	-		
23	75	3	Strengthen payroll mechanisms of schools and teachers and conduct monitoring and survey of the same; (ST/MT/LT)	10,000	10,000	10,000
			<b>Outcome targets:</b> Improved in the situation of availability of resources received by service delivery units under MoE.			
			Total of MoE	15,000	35,000	150,000

			<b>Sub-Project 8:Lead by Ministry of Health and Population (MoHP)</b>	<b>Short Term</b>	<b>Medium Term</b>	<b>Long Term</b>
			<b>Objectives:</b> To improve the resource availability by the service delivery units of MoHP.			
23	75	1	Prepare & implement an action plan for enhancing service delivery system in District Health Office (DHO) to Health Centers.			
	75	(i)	i) Make assurance of budget ceiling to the service delivery units of health sectors by ministry with the supports of MoF and NPC; (ST)	-		
	78	(ii)	ii) Conduct (by MoHP) surveys on tracking of resources make available to the primary health care centers. (ST/MT/LT)	5,000	5,000	5,000
	75	(iii)	iii) Make Flash Reports of schools and health service more reliable and realistic. (MT)		10,000	
	75	(iv)	iv) Establish one window system to overcome the challenges of overlapping the funds to service delivery unit; (MT)		-	
	77	(v)	v) Use web based Inventory Management System of District Health Office, service centers to update records of income and expenditure of durable goods in the web site of Supply Management Division i.e. www.dohslmd.gov.np. (LT)			50,000
	75	(vi)	vi) Ensure sufficient resources and efficient human resources (including finance or accounts staffs) for Health service management of GoN; (LT)			-
	75	(vii)	vii) Prepare and implement resource assessment mechanism for primary health centers by the Department of Health and all departments; (LT)			20,000
			<b>Outcome targets:</b> Improved in the situation of availability of resources received by service delivery units under MoHP.			
			<b>Total of MoHP</b>	5,000	15,000	75,000

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PEFA Indicator	Ref. Actions	Sub-Project Action	Component	Short Term	Medium Term	Long Term
			<b>Sub-Project 9: Lead by Public Procurement Monitoring Office (PPMO)</b>			
			<b>Objective:</b> to improve public procurement performance, largely focusing on the <i>key sector agencies</i> . The performance improvement will be achieved through reinforcement of procurement policy reform actions including integrity, governance and oversight functions; public procurement guidelines, professionalization of procurement management capacity; stakeholders' behavioral change; and performance monitoring using e-GP platform, and introduction of open contracting data.			
<b>19</b>	<b>64</b>	<b>1</b>	Amendment of PPA/PPR addressing the following provisions:			
		(i)	Amendment in the existing PPA / PPR incorporating clear provisions on consultant selection, increase the ceilings of procurement to be compatible with established international practices, special and emergency cases, etc. (ST)	-		
		(ii)	Preparation of Standard Procurement Guidelines separately for Goods, Services and Civil Works for widerpublic use; (ST)	50,000		
		(iii)	Preparation of Standard and uniform format for Procurement Plan to be widely used in all Government and Government owned organizations: (ST)	-		
		(iv)	Procurement Plan as proposed at the time of budget proposal must be owned and fully followed during the implementation and make it public within the month of Shrawan; (ST)	-		
		(v)	Make Mandatory use of PPA / PPR in the government owned organizations (ST)	-		
		(vi)	Make Mandatory provision for placement of Trained HR in all Procurement Units (ST)	-		
		(vii)	Conduct wider consultation with stakeholders for PPA and PPR amendments. (ST)	-		
		(viii)	Ensure the legal provision about the turn over and tax clearance through PPMO's web portal (ST)	-		
		(ix)	Make provision of carrying out of public hearing of large procurement on sample basis (at least 5 numbers yearly). (ST/MT/LT)	1,000	1,000	1,000
			Prepare and implement a comprehensive 'Public Procurement Enhancement Project' to strengthen overall public procurement management system by covering following action plans:			
<b>19</b>	<b>65</b>	<b>2</b>	Develop and implement a capacity development program for procurement management staffs addressing following:			
	65	(i)	Prepare and implement regular( effective and extensive) training program for effective and efficient procurement management; (ST/MT/LT)	5,000	5,000	5,000

	65	(ii)	Prepare & implement program of interaction with higher level political leaders, Secretaries, members of constitutional bodies, media persons, CSOs, Contractors, Consulting Firms, Parliamentarians, etc. on PPA, PPR, Guidelines, Procedures, processes, IT system, etc. (ST/MT/LT)	5,000	5,000	5,000
		(iii)	Effectively implement the e-GP System with sufficient monitoring. (ST/MT/LT)	1,000	1,000	1,000
	65	(iv)	Professionalized procurement management capacity with sustainability; (MT)		20,000	
<b>19</b>	<b>65</b>		Prepare and implement a 'Public Procurement Enhancement Project' to strengthen overall public procurement management system:			
	65	(i)	Enhanced public integrity and governance structure in PPMO and key sector agencies; (ST)	10,000		
	66	(ii)	Conduct wider consultation with state owned business enterprises to develop and implement their separate procurement procedures under PPA and PPR for further improvement of accountability, transparency, fair competition & complaint mechanisms in procurement; (ST)	10,000		
	65	(iii)	Improved monitoring of the implementation of PPA; (ST)	-		
	65	(iv)	Improved procurement performance of the key sector agencies; (ST)	-		
	65	(v)	Enhanced public procurement monitoring with civic engagement among all stakeholders; of data with efficient use of time at the working levels of the agencies. (MT)		10,000	
	65	(vi)	Expand and strengthen the e-government procurement system from the stage of application of bid submission to the stage of contract award and certification of completion of contract. (MT)		20,000	
	65	(vii)	Establish a PPMIS (Public Procurement Information System) covering all the procurements linked to the data base of PPMO to monitor. (MT)		50,000	
	65	(viii)	Enhance institutional capacity of the PPMO (as a credible procurement specialized agency) and initiate statistical monitoring of competitive and non-competitive bidding/procurements. (MT)		20,000	
			<b>Outcomes Targets:</b> Improved in overall public procurement management system through capacity development programs, use of PPMIS, institutional development of PPMO and application of standard procurement guidelines.			
			Total of PPMO	82,000	132,000	12,000



						NRS in ,000
PEFA Indic ator	Ref. Actions	Action No.	Component	Short Term	Medium Term	Long Term
			<b>Sub-Project 10: Lead by Financial Comptroller General Offices (FCGO)</b>			
			<b>Objective:</b> To improve accounting, recording and reporting system of revenue and expenditure and to strengthen transparency and accountability of PFM system through ICT, internal control reform, internal audit reform, institutional and human capacity development.			
		1	SPFM -I and II Phase On-going programs (1)Enhancing and Sustaining TSA System and Replacement of Treasury Infrastructures at Earthquake Affected Districts. (ST/MT/LT)	100,000	100,000	100,000
16	51	2	Strengthen and roll out the revenue management information system (RMIS). (ST)	50,000		
5	16	3	Review of Charts of accounts (Revenue and expenditure) and make it applicable in federal system. (ST)	10,000		
22	69	4	Enhance the reconciliation system of bank accounts and other government transactions (of spending units). (ST)	10,000		
22	71	5	Enhance the monitoring system of bank reconciliation of expenditures and revenue in FCGO through TSA and RMIS. (ST)	10,000		
25	88	6	Develop the manual of project accounts with a common use of formats regarding financial reporting and monitoring. (Donor Funded). (ST)	10,000		
25	88	7	Make necessary arrangements for submission of consolidated financial statement within the first trimester. (ST)	-		
25	86	8	Prepare and implement accounting policy to improve consolidated financial reporting. (ST)	-		
25	87	9	Incorporate the provision of recording and reporting of non-cash transactions (direct payments, commodity grants or aid or turnkey projects).	-		
24	82	10	Improve the SOE (monthly) by adding expenditure of direct payment.	-		
24	83	11	Assign responsibility of cash projection and commitment control to a section of FCGO linked with MoF. (ST)	-		
22	74	12	Upgrade the overall functioning and operation of Treasury Management Section of FCGO to plan for strengthening and to make applicable to federal government system. (ST)	2,000	-	-

24	84	13	Strengthen Public Assets Inventory System (PAIS) of FCGO to make updated central record of public properties. (ST)	10,000		
8	34	14	Review current PFM systems and procedures (treasury, budget expenditure control, accounting and reporting, internal auditing systems) and prepare roadmap for supporting evolving federal structures as mandated by the Constitution of Nepal, 2015. (ST)	10,000		
24	84	15	Re-designate Statistic Section of FCGO for financial and statistical analysis with supervisory role over IT section. (ST/MT)	-	20,000	
1	2	16	Improve current initiation for interfacing, interconnecting and harmonizing BMIS, LMBIS, FMIS, RMIS and TSA; (ST/MT)	50,000	100,000	
8	33	17	Make plan for the enhancement and additional functionalities to the current FMIS system capabilities to enable fiscal linkage and interface with other governmental and sub national governmental system; (ST/MT)	10,000	10,000	
25	90	18	Conduct feasibility study on e-Payment System through TSA system and initiate e-Payment system on pilot base with intact monitoring. (ST/MT)	5,000	20,000	
4	15	19	Introduce modified cash basis accounting system to record the outstanding expenditures incurred. (ST/MT)	-	-	
4	13	20	Effectively Implement commitment recording and reporting system in the short run, expand it with control system in the medium run and conversion into commitment accounting system in the long run. (ST/MT/LT)	10,000	20,000	50,000
4	14	21	Upgrade Cash Planning System integrated with TSA. (ST/MT/LT)	-	-	-
5	18 & 88	22	Implement NPSAS in all economic entities and Enhance skill of PFM staffs for preparing NPSAS report through advanced training. (ST/MT/LT)	10,000	10,000	10,000
12	47	23	Prepare and implement an action plan to upgrade, strengthen and optimum utilization of present FMIS and assess long-run feasibility of full implementation of Integrated Government Financial Management Information System (IGFMIS) in the context of federal system through development of a comprehensive ICT policy, strategy and action plan for the Ministry of Finance/FCGO. (ST/MT/LT)	200,000	100,000	100,000
22	69	24	Upgrade and implement of CGAS in all spending units of GoN. (ST/MT/LT)	50,000	50,000	20,000
20	66	25	Prepare and implement a comprehensive plan of action for reform of internal control system of GoN. (ST/MT/LT)	20,000	-	-
21	67	26	Prepare & implement a comprehensive plan of action for Internal Auditing System reform. (ST/MT/LT)	50,000	50,000	50,000
16	58	27	Conduct an assessment (PETS) on availability of funds for commitment of expenditure in selected sector or area (random sample/each year). (ST/MT/LT)	2,000	2,000	2,000
7	28	28	Review and develop the present financial reporting system to record all tax expenditures and quasi-expenditure in the government system by incorporating in NPSAS report. (MT)		-	

16	50	29	Prepare an action plan and implement to prepare consolidated cash flow forecasts at the central level (FCGO) supporting by sector ministries for all government cash inflows and outflows management; (MT)		-	
18	61	30	Develop a comprehensive salary payment system for all civil servants and implement through DTCO. (MT/LT)		20,000	20,000
16	57	31	Develop and implement a capacity development program for PFM staffs addressing following:			
		(i)	Provide enhanced training for all staffs working in PFM Reform areas. (ST/MT)	25,000	25,000	
		(ii)	Prepare a plan to incorporate and strengthen PFM curricula as part of National Staff College and Revenue Administration Training Center courses to enhance the capacity of all the PFM (including accounting) streams' staff. (ST/MT)	10,000	10,000	
		(iii)	Make compulsory pre-service training to all the newly appointed PFM staffs; (MT/LT)		50,000	50,000
24	80	32	Prepare and implement an action plan for improving the quality and timeliness of in-year (mid-year) budget implementation reporting.	-	-	
	80	(i)	Make the practice of commitment control reporting for the mid-year budget review on the basis of FMIS. (ST)	-		
24	80	(ii)	Develop plan of action for reviving central level accounting and reporting system especially for the use of mid-year budget review and annual review of budget implementation; (ST)	-		
24	80	(iii)	Prepare and implement a 'Project Database' comprising of data on approved projects, on physical and financial progress of project implementation and estimates of work-in progress, etc. (MT)		50,000	
24	80	(iv)	Design and implement a computerized reporting system, linking financial progress with physical progress, for all the spending units which will interface & link with CGAS. (LT)			20,000
16	56	33	Prepare & implement an action plan to establish a specialized PFM institute. (LT)			500,000
18	60	34	Establish a linkage between personnel databases and payroll to ensure payroll data consistency of PIS and provide a slot to DTCO for effective payroll control. (LT)			50,000
18	62	35	Strengthen the Payroll Information System (PIS) of all the relevant institutions of the government (NijamatiKitabKhana, Police, Education, Army, etc.). (LT)			50,000
			<b>Outcome targets:</b>			
			Improved budget expenditures control and accounting and reporting. Improved PI-16 (i) extent to which cash flows are forecasted and monitored score and (iii) frequency and transparency of adjustment to budget allocations score from C to at least B.			
			Improved timeliness and regularity of accounts reconciliation and the PEFA score of PI-22 improved from C+ to at least B			
			Improved PI-18 effectiveness of payroll control from C+ to at least B.			
			Improved PI-24-quality and timeliness of In-Year Budget Reports and improved score by atleast B from C+.			

			Improved PI-25, dimension (i): Completeness of the Financial Statements and dimension (iii): Accounting standards used, both from C to B.			
			Reduced time taken in reconciliation of data records (expenditure and revenue) of FCGO and Central Bank at transaction level as well as at central accounts level from more than six months.			
			Improved in PI-4 Stock and monitoring of expenditure payment arrears score to A from B+. Gap between current PFM competences and required ones has been reduced and improved.			
			Total of FCGO	654,000	637,000	1,022,000

						NRS in ,000
PEFA Indicator	Ref. Actions	Action	Component	Short Term	Medium Term	Long Term
			Sub-Project 11: Lead by PEFA Secretariat			
			<b>Objectives:</b> Strengthening the capacity of PEFA Secretariat and to identify the reform areas through research and studies on different emerging issues and challenges of PFM for development and conduct capacity development programs.			
		1	SPFM -I Phase On-going programs (3) Supporting capacity building of PEFA Secretariat and other programs will be continued in SPFM-II.	50,000	50,000	50,000
8	34	2	Review current PFM systems and procedures (treasury, budget expenditure control, accounting and reporting, internal auditing systems) and prepare roadmap for supporting evolving federal structures as mandated by the Constitution of Nepal, 2015. (ST)	5,000		
8	30	3	Conduct study on lateral funding by INGOs & NGOs to SNGs to consolidate such funding and expenditure at central level budgeting and reporting.	1,000		
	35	4	Conduct a study on the effectiveness of present internal auditing system of local bodies; (ST)	1,000		
7	27	5	Conduct a study on to improve the reporting system to cover unreported government operations; (MT)		10,000	
	27	(i)	Part of the study will cover the change in the borrowing or treasury position by roll-over action of the existing Treasury Bills. (MT)			
12	49	6	Conduct a study on Agency Grant System (AGS) to apply or adopt in government resource allocation system and implement it in the long-run; (MT/LT)		25,000	
		7	Conduct or support on study/research on different aspects of PFM as required by the PEFA Secretariat. (ST/MT/LT)	5,000	5,000	5,000
			Outcome targets: Strengthened the overall PFM system of the country. Improved in all the PEFA indicators.			
			Total of PEFA Secretariat	62,000	90,000	55,000

			<b>Sub-Project 12: Lead by CSOs</b>			
			Objective: To enhance the contribution of civil society to PFM reforms, including the transition to fiscal federalism incorporating the new provinces.			
11	42	1	Make mandatory provision of participation of CSOs in budget processes at local level. (ST)	-		
9	40	2	Promote social audit of the annual budget income & expenditures of SNGs in annual basis by making legal provision. (ST/MT/LT)	10,000	10,000	10,000
23	78	3	Awareness raising of civil society at the district, municipal, and VDC levels on the TSA and expenditures by service delivery units (ST/MT/LT) Outcome targets: Strengthen CSOs use of social accountability to improve PFM. Participatory transition to fiscal federalism;	30,000	30,000	30,000
			Total of CSO	40,000	40,000	40,000

			<b>Sub-Project 13: Lead by ICAN</b>			
			Objectives: To strengthen the accounting and reporting system of SOEs and other private sector entities in line with the international best standards and practices.			
9	37	1	Support adoption of NFRS in SOEs as well as other private sector entities (public limited and multinational companies) within fixed time frame; (ST/MT)	10,000	10,000	
		2	Prepare and implement an action plan to strengthen the capacity of ICAN, ASB, AUSB and other key regulating entities working on PFM areas. (ST/MT)	10,000	10,000	
		3	Support on designing the academic curriculum of Universities relating to public and private sector accounting and reporting system. (ST/MT)	5,000	5,000	
		4	Update/revision of NFRS inline with IFRS. (ST/MT)	10,000	10,000	
			Outcomes: The accounting and reporting system of public(SOEs) and private sector entities will meet the international standards and practices.			
			Total of ICAN	35,000	35,000	-

Note: In the process of implementation of above mentioned sub-projects, all the concerned line ministries, departments, agencies shall be involved as implementing as well as supporting role as per needed.

### **Annex 3: Institutionalizing the PFM Reform Process**

The roles of each organization in the implementation of the PFMRP, Phase 2 are briefly outlined below:

**(a) PEFA Steering Committee**

This Committee, chaired by the Finance Secretary, is responsible for:

- Providing overall leadership, coordination and strategic direction of the PFMRP
- Communicating the goals and progress of the PFMRP to governmental and other stakeholders

**(b) Parliament (including Public Accounts Committee)**

For every fiscal year, the annual budget is presented in Parliament by the Finance Minister, which then leads to detailed debate on its content. After detailed discussions on the budget (votable and non-votable budget head classifications) by the members of Parliament, the presented budget is approved as appropriated budget. This appropriated budget is endorsed and authorized to the MoF, GoN for execution. The accountability framework of oversight is ascertained in the presence of Parliament.

The Public Accounts Committee and other committees perform oversight function of the work of the GoN. The annual report of Office of Auditor General (OAG) is discussed by the Public Accounts Committee (PAC) with clarifications and justifications on each section by all the line ministries. On the basis of the detailed discussion, PAC makes suggestions and provide directions to line ministries for ratification, adjustments and corrections within the agreed time line. Other parliamentary committees also perform oversight functions on actual situation of the implementation of budget executed by different entities. In this connection, necessary directions and orders are issued by these committees for effective and efficient execution of budget, approval of Fiscal Legislations, etc.

**(c) Office of the Auditor General**

The accounts (expenditures, revenues and others) of all the government offices are audited by the OAG with regard to the regularity, economy, efficiency, effectiveness and the propriety thereof. For carrying out audit of corporate bodies with more than 50% share of GoN, the OAG is consulted for appointment of the final auditor and issuing necessary directives and principles on audit. The Auditor General is the constitutional body and a supreme audit institution of Nepal. The Auditor General submits its annual report to the President and the President through the Prime Minister shall arrange to table such report to the Legislature-Parliament

**(d) National Planning Commission**

The NPC is the government's advisory body for planning and policy development. Its main function is to formulate development policies and prepare periodic development plans within the

framework of a long-term development perspective. Its other functions are to explore resources (internal, external, indigenous and foreign technology) and innovative approach for sustainable development; formulate annual programs for the GoN; advice the Government on institutional development of monitoring and evaluation system, to monitor program and project implementation according to plan targets and outlay, and carry out impact evaluations; provide guidelines, advice & suggestions to sectoral ministries, departments, other agencies and local bodies & assist them in plan and project formulation; provide guidelines on policy targets and priorities regarding annual budget formulation to the MoF& all line ministries before issuing the budget formulation circular; formulate policy framework for approval of district level projects; approve central level projects; set annual targets for development program; advice government offices for accepting any kind of aid (kind or cash) and aid agreements; and function regarding evaluation of new policies and refinement of the planning process. In this context, NPC chairs the resource committee for budget ceiling for each fiscal year and update Medium-Term Expenditure Framework (MTEF), etc.

**(e) Ministry of Finance**

The MOF is the lead ministry for economic, revenue and expenditure affairs. It is the central authority of Government of Nepal charged with the responsibilities for maintaining both micro and macro-economic stability in the country. Moreover, the key role of the Ministry lies with the more rationale allocation of resources; better management of public expenditure; enhanced mobilization of both internal and external resources; greater performance in public investments and strengthening of public enterprises productive capacity; open and simple foreign exchange policies and regulation, and prudent fiscal and monetary policies. In this context it perform functions regarding economic policy, financial administration and control, economic analysis, allocation of economic / financial resources, money, monetary policy formulation and implementation, banking, insurance, statement of income and expenditure (budget), revenue policy and planning, revenue investigation, revenue administration and collection, international relations for economic development and economic system, international conference on economy and money, foreign aid/assistance, foreign debt, foreign exchange and control, public debt and guarantee, etc. It plays as a member of resource committee, prepare & implement budget calendar, prepare and present annual budget, conduct budget discussions with line ministries and agencies for finalization of budget, present budget in the Parliament, send authorization and allocation (sources) of budget for execution, monitor budget execution , mid-year review and adjustment, virements, etc. Under the MoF, there are Financial Comptroller General Office (FCGO), Inland Revenue Department (IRD) and Custom Department working as supporting budget execution, treasury management and reporting, tax administration and collection of taxes and custom duties respectively.

**(f) Financial Comptroller General Office**

FCGO is the office under MoF headed by the Special class (equivalent to the secretary level) FCG and is responsible for treasury operation and management for the GoN. FCGO is



responsible for supporting and controlling to execution of government budget through TSA system, recording revenue collection and other receipts and preparation and submission of consolidated financial statements of the government. Its responsibility also includes ensuring maintenance of basic accounts keeping of the government by the accounts (PFM) personnel and staff recruited and administered by it. Its functions also cover conducting of the internal audit of revenue and expenditure of the government. Other important responsibility of FCGO include ensure timely repayment of internal and external debts, investing in the loan and equity of public enterprises and maintaining the records related to these financial transactions. It also manages the distribution of pension through Pension Management Office to retired government employees and maintains necessary records thereof.

**(g) Public Procurement Monitoring Office**

Public Procurement Monitoring Office (PPMO) was established as per the provision made in the new Public Procurement law of Nepal. The Public Procurement Act, 2063 (B.S.) and Public Procurement Regulation, 2064 (B.S.) have been enforced on 2063/09/30 (B.S.) and 2064/5/03 (B.S.) respectively. PPMO was established as the government agency on 2064/5/3 (B.S.) and is placed directly under the prime minister and reports directly to the Prime Minister. The main functions of the PPMO is to prepare public procurement policy and recommend measures of implementation to the government for improvement and proper functioning of the public procurement system and monitor the functions of public procurement. It has established and maintained websites/portals dedicated to overall public procurement management of the GoN. It is also functioning as a secretariat of the Procurement Review Committee (PRC). PPMO present an annual report to GoN reporting on the overall functioning of public procurement system.

**(h) Local Government Bodies**

Presently under the direction of MoFALD, there are District Development Committees, Municipalities and Village Development Committees throughout the country involved in PFM providing necessary public service delivery in the local level. Under the new federal system, there will be new jurisdictions and reporting arrangements that are in the process of being worked out.

**(i) Line Ministries (including AGAs, Departments, all the Spending Units)**

There are 45 central level government ministries and agencies (25 line ministries, 5 constitutional bodies and 15 other central level agencies), autonomous government agencies are estimated about 1460, district development committees are 75, municipalities are 192 (1 metropolitan, 11 sub-metropolitan and 179 municipalities) and VDCs are about 3300. The budget and programs are provisioned for and through these line ministries and agencies, departments, regional, district level and project and service level offices. Each line ministry and central level offices prepare and implement their budgets and programs through (top-down and bottom-up

approach) these offices as per the prevailing law, rules, guidelines, directives and other internal control system of the government.

**(j) Oversight Agencies**

The Commission for the Investigation of Abuse of Authority (CIAA) is a major apex constitutional body who oversight all the functions of government and overall public activities to curb corruption and its tentacles in the country. National Vigilance Centre of GoN is dedicated to establish good governance and to control corruption prone through preventive measures. "NVC is mainly established to play a preventive and vigilant role in order to ensure good governance by creating fair economic discipline, moral ethics and transparency."

**(k) Development Partners**

The Government of Nepal (GoN) has been working closely with Development Partners (DPs) in the design and implementation of Public Financial Management (PFM) reform initiatives at the country and sector level. There has also been an increasing interest in recent years on the part of non-state actors, civil society organizations and development partners in strengthening financial accountability, with the goal of improving use of public resources and obtaining value for money. In response to the GoN's and DPs call for a coordinated approach to address PFM challenges, DPs under the leadership of the World Bank have set up a Multi-Donor Trust Fund (MDTF) that pools resources for providing support for strengthening PFM systems, increasing accountability in public expenditure and financial management and performance, and addressing fiduciary and governance weaknesses in the utilization of public resources. Other DPs provide complementary PFM support, inter alia, at the local level (ADB, DFID, CIDA, Denmark, SDC, GIZ, and UN agencies), to sector ministries (DFID), to the Ministry of Peace and Reconstruction (EU), and to revenue authorities (IMF, USAID).

**(l) PEFA Secretariat**

The government established a PFM Steering Committee chaired by the Finance Secretary & comprises representatives from MoF, NPC, OAG, and FCGO; and private sector representatives from the FNCCI and Transparency International Nepal from Civil Society and set up a PEFA Secretariat housed in Financial Comptroller General Office (FCGO) to drive the PFM reforms, and adopted a PFM Reform Program Phase I (2010–13; PFMRP) in 2009. PEFA Secretariat has been created directly under the PEFA steering Committee to coordinate and facilitate PFM/PEFA implementation. It also monitors the progress of PEFA and PFM policies, plans and programs. The Secretariat also liaison with development partners and works as focal point for PFM related activities in Nepal. PEFA Secretariat provides technical assistance and other supports to line ministries, departments and districts to implement PEFA Framework in Nepal. It also plays the role to activate all PEFA structure in meeting its goals and objectives. With the publication of first PEFA Assessment Report and recommended DAP to implement, PEFA Secretariat has initiated its maneuvering to lead the function of PFM reforms and to institutionalize the reforms process in the country. So, the Secretariat is working as a central

platform to (a) facilitate support to the PFM Steering Committee, (b) support implementation of the PFM Strategy (c) support research and analysis in high-priority PFM areas or sectors, and (d) develop and implement a communications strategy to raise PFM awareness. A Working Committee has also been created to support implementation of decisions of the Steering Committee and to support the Secretariat. The Working Committee is chaired by the PEFA Secretariat (Nepal) Coordinator and has representatives from key line ministries, MoF: Budget and Program Division, Revenue Division, NPC, OAG. There are PEFA Implementation Units (PIUs) in central level agencies and line ministries and District PEFA Implementation Unit (DPIUs) in all the 75 districts.

Recently, it has finalized the Second PEFA Assessment and developed Second Phase PFM Reform Agenda with wider discussions with its stakeholders.

**(m) Others**

Besides the above agencies, there are a number of entities that play significant role in the PFM reform process, including Nepal Rastra Bank, Commercial banks, Institute of Chartered Accountants Association (ICAN) and CSOs among others.

#### Annex 4: Donor Mapping Supporting National and Sub-national PFM reforms

<b>Donor Support</b>	<b>PROJECT TITLE</b>	<b>Amount &amp; Implementation Modality</b>	<b>Activities</b>	<b>Implementation period</b>	<b>Responsible Government Agency</b>
MDTF Funding: Australia DFAT Denmark, DFID, EU, USAID, Government of the Swiss Confederation and Norway	Strengthening PFM Systems	US\$4.3 m  MDTF (Recipient Executed and Bank Executed)	Upgrading IFMIS for TSA Function, Enhancement of Information System, TSA Roll out Support, Training/Study Tour, Convergence to IFRS, Commitment Accounting, IPSAS Training/Study Tour, PFM Capacity Building  Second PEFA Assessment	Oct 13, 2011 - June 30, 2016	Financial Comptroller General Office (FCGO), Accounting Standards Board (ASB) and PEFA Secretariat

MDTF Funding: Australia DFAT, Denmark, DFID, EU, USAID, Government of the Swiss Confederation and Norway	Strengthening PFM System II	US\$ 3.68 m MDTF (Recipient Executed and Bank Executed)	SPFM II will further enhance FMIS and implement the roll out of commitment management and revenue management- RMIS(Revenue Management Information System) across all districts. This follow on project will also consider expanding the roll- out of NPSAS and work on capacity building by addressing demand for PFM courses and skill gaps.	July 29, 2015- July 31, 2017	Financial Comptroller General Office (FCGO), Accounting Standards Board (ASB) and PEFA Secretariat
World Bank MDTF Funding: Australia DFAT Denmark, DFID, EU, USAID, Government of the Swiss Confederation and Norway	Strengthening the Office of the Auditor General Project	US\$2.3 m  MDTF (Recipient Executed and Bank Executed)	"Enhance the Quality of Financial Statement Audits (1.2), Upgrade the Capacity to Conduct Performance Audit (0.6), Enhance the Impact of Audit  "	Jan 2012 - June 30, 2016	Office of the Auditor General (OAG)

World Bank MDTF Funding: Australia DFAT Denmark, DFID, EU, USAID, Government of the Swiss Confederation and Norway	Strengthening Demand Side PFM Capacity	US\$ 1.5 m  MDTF (Recipient Executed and Bank Executed)	Grant Making to CSOs for Action Learning, Training, Monitoring, and Awareness Raising, Knowledge Sharing, Monitoring, Impact Evaluation, and Research		CECI
World Bank MDTF funding:	Report on Standards and Codes (ROSC) in Accounting and Auditing Sector in the private sector	US\$ 0.095 m  Bank Executed	Analytical research on accounting and auditing standards in the private sector in Nepal		World Bank
DFID, , Embassy of Denmark,  Embassy of Norway and SDC (Pool funds)  Supported by UN agencies and GIZ	Local Governance & Community Development Program (LGCDP II)	Programme implemented by DDCs, Municipalities, and VDCs; supported and supervised by MLD	PFM support at sub national level to  -Improve accounting system -Minimum Conditions & Performance Measures (MCPM) to enhance the overall management of local level -Improve planning & budgeting system -Capacity building activities	July 2008 – June 2012	Ministry of Local Development (MLD)
ADB, DFID, EU	Strengthening Public Management	Program grant	(i) Enhance linkages between central and local budget and fiscal management (in coordination with other DPs, address gaps and disconnects between central and local, including development of three year rolling MTBF)	Mid 2012 - 2015	Ministry of Finance  Ministry of Local Development  Local Bodies (DDCs,

			(ii)Strengthen PFM and reduce fiduciary risks at the local level (it will largely support the implementation of MLD's PFM and Fiduciary risk action plan) (iii)Institutionalize procurement reforms at the national and local level (work with PPMO to implement its strategic plan) (iv)Strengthen capacity of oversight and accountability institutions (CIAA, OAG, NVC)		VDCs and Municipalities)  CIAA, OAG, NVC
DFID	Nepal Health Sector Support Programme	Implementation subject to funding	Review of scope for Transaction Accounting & Budgeting Control System	Implementation subject to funding	MoHP
DFID	Nepal Health Sector Support Programme	TA support aligned behind national health plan NHSSP2	Annual support to budget preparation and analysis process	Ongoing until 2015	MoHP
DFID	Rural Access Programme (RAP)	Implementation	Support to implement MFALD's fiduciary risk reduction action plan in RAP districts  Trial results based payment system in RAP districts	3 years	DOLIDAR / MFALD
DFID	Public Financial Management and Accountability	Implemented through Crown Agents	Preparation of DFID FRAs,support in Health, Local Governance, Ministry of Women and Children, Ministry of Environment, and Forestry sectors ; support to PEFA Secretariat (1 full-	2013 – 2015	MOF and sector ministries

			time PFM national consultant, 1 international consultant demand-based, i.e. a few days a year, and support with Internal Control guideline drafting& preparing Proposal on Reform of Present Internal Audit System in Nepal and support in overall functions of PEFA Secretariat )		
USAID	Nepal Economic growth, Agriculture and Trade Project (NEAT)	US\$1.0 m Program implemented by NEAT, a US contractor	<p>Enhancing tax payments –ABBS (payment of taxes through e-payment system)--Support IRD in for data links with 2 more government agencies for increased tax revenue</p> <p>--Training to IRD staff on 3 of the specialized tax areas</p> <p>--Establish and help operate a Revenue and Policy Analysis Unit at IRD.</p>	<p>June 2010 to July 2012</p> <p>June 2012 till June 2013</p> <p>June 2012 till June 2013</p> <p>June 2012 till June</p>	Ministry of Finance (IRD)



				2013	
GIZ	SUNAG (Sub-national Governance Program)	Consultancy, training, policy development	<ul style="list-style-type: none"> <li>- accrual accounting implementation (training, software use, asset valuation, opening balance)</li> <li>revenue administration capacity building (own source revenues, tax administration)</li> <li>fiscal decentralization (grant formula, fund flows, channeling of funds)</li> <li>- MC/PM</li> <li>municipal solvability assessment</li> </ul>	Ongoing up to June 2014	MLD, MMD and LBFC
IMF	Article IV missions from Asia Pacific Department			Regular periodic APD missions	Ministry of Finance (MoF)
IMF	Diagnostic support on PFM from Fiscal Affairs Department	Occasional and regular short missions from IMF headquarters	Regular Fiscal Affairs Department Public Financial Management Division diagnostic review missions and PFM evaluation missions	Most recent mission in November 2011 (Budgeting, Budget execution, Cash management, TSA evaluation, statistical reporting)	MoF and Nepal Rastra Bank

			Regular Fiscal Affairs Department Revenue Administration Division diagnostic review missions covering all aspects of revenue administration	and GFS)  Most recent mission in June 2012 – focused on assisting IRD with new Reform Plan and reviewing progress on FAD recommendations and against JSA-program objectives	MoF, Inland Revenue Department (IRD) and Department of Customs (DOC)
IMF	Selected Asia Pacific Division countries: Effective and Efficient Public Financial Management (JSA Program)	Resident advisor at IRD since August 2010 (50% of time)  Peripatetic advisor assisting DOC since 2008	Advisory support to IRD to improve compliance levels (registration, return filing, audit, arrears) Short term support to IRD's Large Taxpayer Office (LTO) to improve audit function performance Advisory support to DOC on reform planning, organization structure, risk management, etc. Short term support for DOC's Post Clearance Audit function and to develop an IT strategy	2008 - 2013	MoF, IRD and DOC

		Short term TA supporting LTO (2008-10)			
		Short term TA supporting DOC (2011)			
IMF	Resident PFM Advisor (funded by JSA)	Resident Advisor	Advising on: TSA Budget Execution Accounting and Financial Reporting Capacity Building PEFA Internal Audit Donor Coordination PFM Reforms etc.	August 2009 to November 2011; and June 2012 to December 2013	Ministry of Finance and FCGO
EU	To support future priorities of WB MDTF and ADB programme	10 million	-	2012-2015	
EU	Support to the Ministry of Peace and Reconstruction	210,000 EUR  Technical Assistance	Support MoPR in finalizing a FM Action Plan and support its implementation, Carrying out a PFM diagnostic, ensure improved FM reporting	2011-2015	MOPR, PFS

## Annex 5: Details of Nepal's Second Phase PFM Reform Action Plan Linked with PEFA Indicators (2016/17-2025/26)

**Implementation period: Short Term (ST) - 1- 2 Years; Medium Term (MT) - 2 - 5 years; Long Term (LT) –over 5 Years**

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
<b>A: PFM OUT - TURNS</b>					
A. Credibility of the Budget (PI-1 to PI-4)	PI – 1: Aggregate expenditure outturns compared to original approved budget. (Rating Score-A)	1) The deviation of actual primary expenditures and the original budgeted primary expenditures was 5.9%, in FY 2013 while the deviations for FY 2012 and FY 2011 were at 1.9% and 4.05% respectively.	1) Prepare and introduce Budget Management and Financial Responsibility Law to secure parliamentary approval on time.(ST/IP) 2) Systems (BMIS, LMBIS, FMIS, RMIS and TSA) harmonized & interconnected by building interfaces. (LT/IP) 3) Line ministries introduce MTBF to support budget system reform; (MT/IP) 4) Formulate and implement umbrella grant policy with making provision of performance based indicators for allocating Grants to the SNGs and AGAs.(MT) 5) Formulate standard of expenditure & determine per unit cost to make realistic budget. (MT)	MOF, NPC, FCGO & Line Ministries.	Improved budgeting & expenditures procedures; Better monitoring & evaluation; and better expenditure outturns.
	PI - 2: Composition of expenditure outturn compared to original approved budget. (Rating Score-C+)	i. The variances in the composition of expenditure at the ministries, departments and agencies for the review period (FY11-FY13) compared to the budget were 11.8% in FY11; 16.7% in FY12 and 5.3% in FY13. Under policy financing large variances held by MoF. ii. Actual expenditure charged to the contingency vote was almost zero. Mid-year budget review process for redirecting resources (including contingency) and/or freezing resources allocated for unjustifiable activities.	6) Produce realistic sectoral ceilings by strengthening MTEF(with sector plan and costed strategy). (MT/IP) 7) Introduce threshold of budget for contingency expenditures by law. (ST) 8) Follow the national guidelines for appraising all the major capital investment projects as per the objective economic analysis. (MT) 9) Prepare and implement training plan to capacitate line ministry personnel in producing realistic budgeting & expenditures. (ST/MT) 10) Amendment of FPA in regards to the virement authority of line ministries & MoF. (MT) ➤ Make provision of formula based budget allocation mechanism in the federal setting (ST) ➤ Establish the direct linkage and ownership between NPCS, MOF and sectoral ministries in the use of LMBIS / MTBF (MT)	MOF, NPC, FCGO & Line Ministries.	Improved budgeting procedures: Better sector plan and cost estimation which are effectively implemented.
	PI-3. Aggregate revenue outturn compared to original approved budget. (Rating Score-A)	i. Only in one year of the three fiscal years, was revenue collection below 97% of the target i.e. 92% in FY11, revenue collection was 101% in FY12 and 102% in FY13 as a result of administrative reforms in taxation.	11) Prepare & implement medium-term revenue forecasting framework as part of the annual budget process. (I/IP) 12) Implement capacity development programs for strengthening revenue forecasting staffs. (ST)	MoF NPC, NRB, FCGO	Improved revenue forecasting leading to better estimates of other budgetary aggregates; Enhanced confidence in budgetary forecast

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
	PI- 4: Stock and monitoring of expenditure payment arrears. (Rating Score-B+)	i. The stock of expenditure payment arrears was below 0.5 % of expenditure in the last two years (FY 12: 0.31%of total expenditure; FY 13: 0.15 % of the total expenditure). ii. For monitoring, data on the stock of arrears is generated annually, but does not include a percentage profile.	13) Effectively Implement commitment recording and reporting system in the short run, expand it with control system in the medium run and conversion into commitment accounting system in the long run. (ST/MT/LT) ➤ Implement commitment recording and reporting system for better budget expenditures management in the line ministries. (ST/Mt/LT) 14) Upgrade Cash Planning System integrated with TSA. (ST/MT/LT/IP) 15) Apply modified cash basis accounting system to record the outstanding expenditures incurred.(ST)	MOF, FCGO, DTCOs and MDAs.	Better monitoring of payment arrears & availability of better system and procedures to controlling arrears. Improved cash management.
<b>B: KEY CROSS CUTTING ISSUES.</b>					
B: Comprehensiveness & Transparency (PI-5 to PI-10)	<b>PI- 5: Classification of the Budget. (Rating Score-A)</b>	i. The budget formulation and execution is based on administrative, economic and sub-functional classifications, using GFS/COFOG standard or a standard that can produce consistent documentation according to those standards.	16) Amend Charts of Accounts to reclassify some necessary codes: those currently recorded as recurrent exp. (especially under transfer/grant codes) as capital expenditure.(ST) 17) Revenue classification does not include the social contribution; however, this is included separately as the social security tax within remuneration tax head. Social contribution classification should be re-arranged according to GFS Standards under sub-code 12. (ST) 18) Implement NPSAS in all economic entities and Enhance skill of PFM staffs for preparing NPSAS report through advanced training. (ST/MT/LT) ➤ Develop capacity for producing NPSAS based consolidated financial statements on annual basis by all the line ministries and government central agencies (ST/MT/LT) 19) Revision of present GFS Classification to incorporate of latest version of GFS Classification. (MT)	MOF, FCGO& Line Ministries	Enhanced consistency in budget classification and documentation produced in compliance with GFS/COFOG system.  Adoption of modified cash basis accounting system; Availability of documentation & reporting under that system.
	<b>PI-6: Comprehensiveness of information included in budget documentation. (Rating Score-A)</b>	i. Recent budget documentation fulfills 7 of the 9 information benchmarks.	20) Empower sectoral ministries to enable them to fully utilize MTEF. (ST/MT) 21) Prepare and introduce long term fiscal policy objectives and programs to guide investment for the government decisions. (MT) 22) Disclose exchange rate assumptions in the Budget Speech. (I) 23) Develop and implement a policy framework to capture all the fiscal information at local government level for macro-economic analysis. (ST) 24) Identify and incorporate SNGs level key economic (macro) indicators and align with FMIS. (MT)	NPC, MOF, and FCGO MoFALD	Marked improvement of information and quality of budget documentation – covering expenditure, debt and financing, etc. in line with overall macro and fiscal objectives of the government. More effective use MTEF leading better budgetary procedures and support introduction of MTBF. Availability of policy for PPP sector investment decision.
	<b>PI-7: Extent of unreported government operations. (Rating</b>	i. The level of extra-budgetary or unreported expenditure is considerably more than 10% of total expenditure, which in 2012/13 was NRs 302.1 billion i.e. not included in fiscal	25) Addlegal provision in the fiscal rule to cover in the central government's consolidation to all institutions – trusts, agencies, PEs, autonomous bodies. (MT) 26) Effectively implement new development cooperation policy to channel all aid through the country system, on budget and on Treasury. (MT)Included in D-1 (95)	MOF, FCGO & line Ministries.	Consolidation of all the public sector expenditures.  All the grant assistance is

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
	Score-D+)	<p>report. The Consolidated Financial Statement does not cover revenues and expenditures of major AGAs and various funds, roughly estimated expenditure of NRs 95 billion in FY 2012. There are significant unreported tax expenditures and quasi-fiscal expenditures.</p> <p>ii. Complete income/expenditure information is included in fiscal reports for all loan financed projects and at least 50% (by value) of grant financed projects are implemented outside the government's purview.</p>	<p>27) Conduct a study onto improve the reporting system to cover unreported government operations. (MT)</p> <p>➤ Add part of the study on the change in the borrowing or treasury position by roll-over action of the existing Treasury Bills.</p> <p>28) Report on tax expenditures and quasi-fiscal activities produced as part of public expenditure; (ST)</p> <p>29) Make policy regarding the use and implementation of extra budgetary funds managed by AGAs, Universities, Welfare funds etc; (ST)</p>		<p>captured by budget.</p> <p>Improved off-budget reporting.</p> <p>Clarity in extra budgetary funds.</p>
	PI-8: Transparency of Inter-Governmental Fiscal Relations. (Rating Score-C+)	<p>i. The horizontal allocation (among SN governments of conditional &amp; unconditional transfer from central government) of only a small part of transfers from central government (10 to 50%) is determined by transparent &amp; rule based system. Some lateral funding resources (INGO &amp; NGO) do not come under purview of the central government and hence are outside the budget.</p> <p>ii. Reliable information to SN governments is issued before the start of the SN fiscal year, but too late for significant budget changes to be made. SN government budget preparation is very much a top down driven process rather than bottom-up.</p> <p>iii. Fiscal information (at least ex-post) that is consistent with central government fiscal reporting is collected for at least 75% (by value) of SN government expenditure and consolidated into annual reports within 10 months of the end of the fiscal year (by Local Fiscal Commission). There are lapses in reporting revenue collected by the SNGs and the reporting is not done under the GFS format.</p>	<p>30) Conduct study on lateral funding by INGOs &amp; NGOs to SNGs to consolidate such funding and expenditure at central level budgeting and reporting. (ST)</p> <p>31) Add legal provision to introduce multi-years budgeting (MTEF) system in SNGs; &amp; adopt GFS coding in all the revenue and expenditure of local bodies/ SNGs and to expand and enhance the TSA system in SNG level and develop the consolidated financial statement of SNGs. (ST/MT/LT/IP)</p> <p>32) Develop SNGs' FMIS and harmonize and interlink the central government FMIS and SNGs' FMIS. (LT)</p> <p>33) Make plan for the enhancement and additional functionalities to the current FMIS system capabilities (of the current hardware, software, sufficient backup, security &amp; IT experts) to make enable linkage and interface with other government system. (MT)</p> <p>34) Review current PFM systems and procedures (treasury, budget expenditure control, accounting and reporting, internal auditing systems) and prepare roadmap for supporting evolving federal structures as mandated by the Constitution of Nepal, 2015. (ST/IP),</p> <p>➤ Begin implementation of PFM-federalism roadmap. (ST)</p> <p>35) Conduct a study on the effectiveness of present internal auditing system of local bodies. (ST)</p> <p>➤ Formulate and implement umbrella grant policy with making provision of performance based indicators for allocating Grants to the SNGs and AGAs. (MT) Grouping in PI-1 (Action No. 4)</p> <p>36) Upgrade, expand and effectively implement IT based accounting system in all the DDCs/Municipalities/VDCs of SNGs. (ST)</p> <p>➤ Prepare and implement an action plan to improve the bank reconciliation system of SNGs. (ST)</p> <p>➤ Prepare and implement an action plan to improve the present internal auditing system of local bodies. (ST)</p>	<p>MoFALD, PEFA Secretariat</p> <p>MoFALD, FCGO &amp; SNGs</p>	<p>Clarity in inter-governmental fiscal relation.</p> <p>Uniformity in reporting of budgeting and implementation of central and local bodies and make easy in consolidating too.</p> <p>Conversion of systems in federal system.</p> <p>Identified reform actions for internal auditing system of local bodies.</p>

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
B: Comprehensiveness & Transparency (PI-5 to PI-10)	<b>PI-9: Oversight of aggregate fiscal risk from other public sector entities. (Rating Score-C)</b>	i. All major Autonomous Government Agencies (AGAs)/ Public Enterprises (PEs) submit fiscal reports including audited accounts to the central government, at least annually, but a consolidated overview is missing or significantly incomplete. The scale of risks arising from AGAs & SOEs entities is not reported in the consolidated report although they are large. ii. The net fiscal position is monitored at least annually for the most important level of SNG but a consolidated overview is missing or significantly incomplete.	37) Establish a institutional mechanism to monitor and analyze fiscal risk covering all AGAs, SOEs and other national agencies including subnational ones; (ST) 38) Support adoption of NFRS in SOEs as well as other public sector entities within fixed time frame; (MT/LT/IP) 39) Introduce policy regarding corrective measures for the entities (non-auditing) which fail to submit the accounts for audit. (ST) ➤ Revise and effectively implement performance based indicators for allocating Grant (recurrent and capital) to the SNG and AGAs. (MT)-Grouping in PI-1 Action No.4. 40) Promote social audit of the annual budget income & expenditures of SNGs in annual basis by making legal provision. (ST/MT/LT) ➤ Review the audit reports of AGAs, PEs and other national agencies by OAG as a monitor. (ST/MT/LT) <u>Grouping in OAG</u>	NPC, MOF and line Ministries. MoF, ICAN & line ministries OAG  MoF & line ministries MoF, NPC, Line Ministry	Availability of documentation in NFRS with mechanism of monitoring fiscal risk of AGAs/PEs. Improved oversight of public sector entities. Action against the management of non-auditing PEs. <u>Established indicators for grants.</u> <u>Improve oversight of public sector entities.</u>
	<b>PI-10: Public Access to key fiscal information. (rating Score-A)</b>	i. The government makes available to the public all of the 6 listed types of information.(annual budget documentation, in-year budget execution reports, year-end financial statements, external audit reports, contract awards & resource available to primary service units)	➤ Make annual internal audit reports public by the FCGO through its website. (MT) (related to reform of internal audit). <u>(Grouping in IA)</u> ➤ Consolidate and prepare district level internal and financial audit report in district level and make sharing with its stakeholders. (MT)( <u>Grouping in IA</u> ) ➤ Make <b>legal</b> (Financial procedure Act/Rules) provision of submission of annual internal audit reports to the Prime minister. (MT)( <u>Grouping in IA</u> )	FCGO  DTCOs  FCGO	Improve in the execution of budget by spending agencies as a result of timely information and access of internal audit reports to the public.
C (i): Policy based budgeting (PI-11 to PI-12)	<b>PI-II: Orderliness and participation in the annual budget process. (Rating Score-A)</b>	i. A clear annual budget calendar exists, is generally adhered to and allows MDAs enough time (and at least six weeks from the receipt of the budget circular) to meaningfully complete their detailed estimates on time. There are lapses in the adherence to the budget circular timelines, budget negotiation & ceiling. ii. A comprehensive and clear budget circular is issued to MDAs, which reflects ceilings	➤ Prepare Budget Management and Financial Responsibility Law & approved by the Parliament (MT)-related & included in BMFR Law-action-1 of PI-1 41) Effectively implement the budget system to further enhance and ensure bottom-up approach in programming and budgeting. (MT/IP) 42) Prepare and implement programs focusing wider participation of CSOs in budget processes at local level. (ST)	MoF MoF, NPC, Line Ministries  NPC, MoFALD, Local Bodies	Enforcement of Budget Management and Financial Responsibility Law. Improved budget process and participation.

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
		<p>approved by Cabinet prior to the circular's distribution to MDAs. The final size of the budget is larger than the ceiling reflecting the changing scenario of resource availability.</p> <p>ii. The legislature approves the budget before the start of the fiscal year, but a delay of up to two months has happened in one of the last three years.</p>			
	<b>PI-12: Multi-year perspectives in fiscal planning, expenditure policy and budgeting. (Rating Score- B)</b>	<p>i. Nepal has been preparing the MTEF since the FY02/03. This MTEF is prepared for a three year period. It has a macroeconomic framework for a three-year period based on the main categories of economic and functional/sector classifications prepared on a rolling annual basis (includes multi-year fiscal forecast &amp; functional allocations). The actual budget size differ with availability of resources, policy and regime changes.</p> <p>ii. Agencies like the IMF and the World Bank used to regularly publish the DSA reports that could be used by the Government for its analysis.</p> <p>iii. The Government prepared business plans for seven sectors but it could not be continued. Sector strategies were prepared in the periodic plan documents. The SWAPs is adopted in three sector i.e. education, health and rural roads. Some initiative was also taken to prepare SWAPs in the trade sector. The budget allocation (multi-year costing for recurrent &amp; investment) for these three sectors covers about 27 % of the total.</p> <p>v. Sector strategies with cost estimates exist only in education, health and rural roads. Although sector strategies are spelt out in the plan document, the links to them and their investment and recurrent cost implications is weak.</p>	<p>43) Formulation &amp; implementation of medium- term fiscal objectives and strategy with quantitative targets for making more effective annual budget process. (MT)</p> <p>44) Preparation and use of medium-term macro-economic forecasts as a basis for annual and medium-term budgets. (MT)</p> <p>45) Prepare and implement plans for performance or output-based budget system (PBB) &amp;, over the long run, a results-oriented system at central level and strengthen at local level. (MT/IP)</p> <p>46) Develop action plan for enhancing the institutional capacity for Debt Sustainability Analysis (DSA) (MT).</p> <p>47) Localize the MTEF in local level. (MT)</p> <p>48) Prepare and implement an action plan to upgrade, strengthen and optimum utilization of present FMIS and assess long-run feasibility of full implementation of Integrated Government Financial Management Information System (IGFMIS) in the context of federal system through development of a comprehensive ICT policy, strategy and action plan for the Ministry of Finance/FCGO. (ST/MT/LT/IP)</p> <p>49) Conduct a study on Agency Grant System (AGS) to apply or adopt in government resource allocation system and implement it in the long-run; (MT/LT)</p> <p>*Make MTEF more realistic, regular, legal and compulsory use in ceiling &amp; budgeting with linkage with sectoral plan. (ST) Grouping in PI-2, Action No.6.</p>	NPC, MoF, FCGO, NRB, line ministries.	<p>Establishing the multi-year fiscal policy for annual budgeting with planned programs.</p> <p>Improved multi-year budgeting with targeted outputs.</p> <p>Improved fiscal risk management.</p> <p>Internalizing the MTEF in budgeting and sectoral plan.</p> <p>Strengthened IFMIS of FCGO that will contribute to multi-year perspective in fiscal planning, expenditure policy and budgeting.</p>



PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
C (ii): Predictability & Control in Budget Execution (PI-13 to PI-21)	<b>PI-13: Transparency of Taxpayer Obligations and Liabilities. (Rating Score-A)</b>	<p>i. All the laws, rules, directives as well as Annual Reports of Inland Revenue Department and Custom Department all clearly exhibit the comprehensiveness and clarity of legislations and procedures. The administrative discretionary powers delegated to tax officers when material differences arises in tax assessment.</p> <p>ii. Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the government supplements this with active taxpayer education campaigns. The information flow is broad and comprehensive.</p> <p>iii. A tax appeals system of transparent administrative procedures completely set up and functional, but it is either too early to assess its effectiveness of some issues relating to access, efficiency, fairness or effective. An independent Revenue Tribunal was established, but most tax appeal decisions are not made promptly and this causes the taxpayer's payments to remain tied up for long periods of time.</p>	<p>50) Prepare &amp; Implement a Comprehensive Plan for Reforms of Overall Revenue Management System: ( Covering Indicators 13, 14 &amp; 15):</p> <p>(1) Establishment of Tax Revenue Board. (MT)</p> <p>(2) Transformation of physical control system to self- removal system in excise. (MT)</p> <p>(3) Update custom act and regulations. (ST)</p> <p>(4) Effectively implement simplified guidelines on Income Tax Act and conduct taxpayer education programs. (ST)</p> <p>(5) Regular update of Inland Revenue Department and Custom Department website of tax acts, procedures, regulations, guidelines, etc. (ST)</p> <p>(6) Conversion of web-based ASYCUDA system in ASYCUDA World in all custom offices. (ST)</p> <p>(7) Institutionalize valuation system at all custom offices through training and necessary facilitation. (MT)</p> <p>(8) Establish an authorized unit for implementing court decision. (MT)</p> <p>(9) Make more easy and accessible web-based personal taxpayers' data and submission of reports. (ST)</p> <p>(10) Provide taxpayer's registration status &amp; filing/non-filing information by SMS. (ST)</p> <p>(11) Establishment of permanent tax settlement committee. (MT)</p> <p>(12) Establishment of single tax code. (MT)</p> <p>(13) Strengthen &amp; revitalize the Revenue Tribunal to make more effective and efficient. (MT)</p> <p>(14) Make provision of online registration &amp; update of tax payer's data with necessary integration among different types of taxes. (LT)</p> <p>(15) Link the baseline information with utility and asset records to capture the probable taxable amount. (LT)</p> <p>(16) Establishment of Client Service Desk in some more Custom Offices. (ST)</p> <p>(17) Expansion of on-line (web-based) monitoring and evaluation system in custom; (ST)</p> <p>(18) Implementation of Import Export Code (IEC) in custom. (ST)</p>	MoF, IRD, DoC,	Strengthened Revenue Management System
C (ii): Predictability & Control in Budget Execution (PI-13 to PI-21)	<b>PI-14: Effectiveness of Measures for Taxpayer Registration and Tax Assessment. (Rating Score-A)</b>	<p>i. Taxpayers are registered in a complete database system for individual taxes, which may not be fully and consistently linked. Linkage to other registration/ licensing functions may be weak but are then supplemented by occasional surveys of potential taxpayers.</p> <p>ii. Penalties as legal action for non-compliance is taken, but substantial changes to their structure, levels of administration are needed to give them a</p>	<p>(19) Make taxpayer's registry in PAN at all government agencies compulsory for all transactions. (MT)</p> <p>(20) Make the entry of all agencies, from whose taxpayers need permission for transaction be recorded at Central Database System. (LT)</p> <p>(21) Make legal provision of penalty for non-participation in tax system more effective. (ST)</p> <p>(22) Extend PAN registration to all types of trading activities, other sectors, both domestic and foreign, tendering and procurement activities by government and SNGs. (MT)</p> <p>(23) Reform to make easy access of e-filing of returns, e-TDS and e-PAN services, online and offline service. (MT/LT)</p>	MOF & IRD	Establishment of Central Database System of Taxpayers' PAN interlinked with all other economic activities.

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
		<p>real impact on compliance.</p> <p>ii. Tax audits and frauds investigations are managed and reported on according to a comprehensive and documented audit plan, with clear risk assessment criteria for all major taxes that apply self-assessment. Taxpayers are selected on the basis of potential risk of non-compliance. Different indicators guide the identification of such risks.</p>	<p>(24) Develop the system of e-Generation of Taxpayer's information/status report as needed. (LT)</p> <p>(25) Revise and effectively implement tax audit manual. (ST)</p> <p>(26) Strengthen the valuation system in line with World Trade Organizations' (WTO) valuation principles in order to maximize revenue collection. (MT/LT)</p>		
	<b>PI-15: Effectiveness in the Collection of Tax Payments. (Rating Score-D+)</b>	<p>i. The debt (arrears) collection ratio in the most recent year was below 60% and total amount of tax arrears is significant (i.e. more than 2% of total collection.). Although tax offices are given annual targets to collect arrears and such targets are included in their performance indicators, enforcement of arrears collection is weak.</p> <p>ii. All tax revenue is paid directly into accounts controlled by the Treasury of transfers to the Treasury and made daily, with few exceptions. There are some lapses in the transfer of revenue collected to the treasury the same day in some cases of distance, negligence, close of offices, etc.</p> <p>iii. Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury doesn't take place annually or is done with more than 3 months delay.</p>	<p>(27) Prepare an action plan to improve the existing database to capture the report of the tax arrears separately for each FY. (LT)</p> <p>(28) Prepare and implement annual work plan of arrear collection. (ST)</p> <p>(29) Improve revenue reconciliation system through Revenue Management Information System (RMIS) in all districts as well as diplomatic mission. (LT)</p> <p>(30) Integrate database of Customs, DRI, and IRD through interface and interconnection. (MT/LT)</p> <p>(31) Review and expand the incentive system to the Taxpayers to bring in the tax net comfortably. (MT)</p> <p>(32) Conduct awareness programs of RMIS in policy and top management levels before rolling out in all districts. (ST)</p> <p>(33) Make compulsory use of p-PAN and e-TDS in all agencies; (LT)</p> <p>(34) Develop and apply integrated software for Income Tax, VAT and Excise Duty at IRD. (MT/LT)</p> <p>(35) Implementation of compulsory submission of Income Tax Return for high net-worth individual. (MT)</p> <p>(36) Write-off certain old arrears based on some procedures. (MT/LT)</p>	MOF and IRD FCGO Concerned Banks	Transparency in individual tax arrears.
	<b>PI-16: Predictability in the availability of funds for commitment of expenditures. (Rating Score-C+)</b>	<p>i. In the absence of a mechanism to provide consolidated cash flow statement, much less a forecast, reconciliation of cash position is still remains an issue (Lack monitoring cash forecast). In year-reconciliation of government operation is weak and technical assistance to forecast cash is being planned by IMF at the request of government.</p> <p>ii. Red Book provides the MDAs with reliable</p>	<p>51) Prepare an action plan to update the software system (FCGO) and empower a dedicated section to prepare consolidated cash flow forecasts at the central level (FCGO) supporting by sector ministries for all government cash inflows and outflows management. (MT)</p> <p>52) Strengthen and roll out the revenue management information system (RMIS). (ST/IP)</p> <p>53) Make legal provision of budget expenditure authorization deemed as provided once the budget is approved by the Parliament; (ST/IP)</p> <p>54) Make provision to send authorization letters, approved programs and sources of the expenditure electronically simultaneously with the existing system; (ST/IP)</p> <p>55) Initiate budget surrender policy and its implementation system for effectiveness of</p>	<p>MOF &amp; FCGO, Revenue collecting banks</p> <p>Parliament, MoF, NPC</p> <p>MoF</p>	<p>Presence of a dedicated section looking towards government cash inflow and outflow work.</p> <p>Strengthened RMIS.</p> <p>Improved budget execution.</p> <p>Improved cash management system.</p> <p>Improved in-year budget review or adjustment</p>

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
		<p>indication of actual resources available for commitment more than four months in advance.</p> <p>i. Significant in-year adjustments to budget allocations take place only once or twice in a year and are done in a transparent and predictable way. Budgetary discipline is weakened when 70% of capital expenditure is done during the last trimester, and, more specifically, during the last month of the fiscal year and the in-year budget transfer is significant.</p>	<p>Mid-in-year Budget Review and Adjustment. (MT)</p> <p>56) Prepare &amp; Implement an action plan to establish an specialized PFM Institute to enhance the capacity of PFM staffs. (LT/IP)</p> <p>57) Develop and implement a capacity development program for PFM staffs addressing following:</p> <ul style="list-style-type: none"> <li>➤ Develop and implement a plan for making compulsory pre-service training to all the newly appointed PFM staffs. (ST)</li> <li>➤ Provide enhanced training for all staffs working in PFM Reform areas. (ST/MT)</li> <li>➤ Prepare a plan to incorporate and strengthen PFM curricula as part of National Staff College and Revenue Administration Training Center courses to enhance the capacity of all the PFM (including accounting) streams' staff. (ST/MT)</li> </ul> <p>58) Conduct an assessment (PETS) on availability of funds for commitment of expenditure in selected sector or area (random sample/each year). (ST/MT/LT)</p>	MoF, Line Ministries FCGO, PEFA Secretariat MoF, FCGO, IRD, Custom Department, MDAS	system. Improve execution of budget.
C (ii): Predictability & Control in Budget Execution (PI-13 to PI-21)	PI-17 Recording and management of cash balances, debt and guarantees. (Rating Score-C+)	<p>i. Domestic and foreign debt records are complete, updated and reconciled at least annually. Data quality is considered fair but some gaps and reconciliation problems are recognized. Reports on debt stock and service are produced only annually with limited content.</p> <p>ii. Most cash balance are calculated and consolidated at least weekly but with some lapses, some extra-budgetary funds remain outside the arrangement.</p> <p>iii. Central government's contracting loans and issuance of guarantees are always approved by single responsible entity but are not decided on the basis of clear guideline, criteria or overall ceilings.</p>	<p>59) Prepare &amp; Operationalize a plan of Establishing DMO (MT):</p> <ul style="list-style-type: none"> <li>• Prepare program for re-installation of CS-DRMS or other specialized software and sufficient training provision to update debt records. (ST/IP)</li> <li>• Establish and implement a system of weekly information sharing between the NRB, MoF &amp; FCGO to manage both fiscal and monetary policy. (MT)</li> <li>• Prepare and implement methodology for preparing debt service forecasts. (ST)</li> <li>• Establish integrated approach to manage time of internal borrowing and overall debt level. (ST)</li> <li>• Establish electronic link/interface between the MoF, NRB and the FCGO for fiscal policy management. (MT)</li> <li>• Make public debt management part of overall fiscal policy management. (MT)</li> <li>• Integrate debt management function to cash planning.</li> <li>• Consolidate all current debt management and operation units under one roof at the debt management office under FCGO (the Ministry of Finance) to make it more effective. (MT)</li> <li>• Review internal debt policy and link with cash management and liquidity position monitoring by a separate DMO. (MT)</li> </ul>	MOF, FCGO & NRB Parliament	<p>Strengthened CS-DRMS.</p> <p>Culture of sharing management of fiscal and monetary policy.</p> <p>Updated methodology for debt service forecast.</p> <p>Established integrated approach for timing of domestic borrowings.</p> <p>Strengthened debt management system.</p>
	PI-18 Effectiveness of payroll controls. (Rating Score-C+)	<p>i. A personnel database may not be fully maintained, but reconciliation of the payroll with personnel records takes place at least every six months. Absence of electronic inter-linkage between payroll data, personnel records and personnel database of the recruitment.</p> <p>ii. Up to three months delay occurs in updating changes to the personnel records</p>	<p>60) Establish a linkage between personnel database and payroll to ensure payroll data consistency with provision of monthly reconciliation. (MT)</p> <p>61) Make provision to pay salary by DTCOs (creating pay making personnel unit within the DTCO who will manage payment of salary in personal bank accounts). (ST)</p> <p>62) Establish a payroll system in PIS and provide slot to DTCO for the effective payroll control. (MT)</p> <p>63) Strengthen the Payroll Information System (PIS) of all the relevant institutions of the government (Nijamati Kitabkhana, Police, Education, Army, etc.).</p>	FCGO, MoGA, MDAs	Strengthen payroll controls.

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		<p>and payroll but affects only a minority of changes. Retroactive adjustments made occasionally</p> <p>ii. Controls of changes to personal records &amp; the payroll exist but are not adequate to ensure full integrity of data.</p> <p>v. A payroll audit covering all central Government entities are partially conducted but there is no physical verification.</p>			
C (ii): Predictability & Control in Budget Execution (PI-13 to PI-21)	PI-19 Transparency, competition and complaints mechanisms in procurement. (Rating Score-B)	<p>i. The legal (&amp; regulatory) framework meets five of the six listed requirements. Bidding opportunities and contract awards are publicly accessible while government procurement plans are not.</p> <p>ii. There is no reliable data on compliance with the law on the proportion of contracts made through open competition. Open competitive method as a default. Electronic bidding</p> <p>ii. The PPMO is now trying to combine all the portals of different entities into one-stop single portal for making public access of complete, reliable &amp; timely procurement information.</p> <p>v. As per the record made available by the Public Procurement Review Committee, there were 22 complaints registered and reviewed in FY13. Thirteen decisions made in favor of the procuring entities. Decisions made by review committee are published in the annual reports of the PPMO.</p>	<p>64) Amendment of PPA/PPR with addressing the following provisions:</p> <p>(1) Amendment in the existing PPA / PPR incorporating clear provisions on consultant selection, increase the ceilings of procurement to be compatible with established international practices, special and emergency cases, etc.</p> <p>(2) Preparation of Standard Procurement Guidelines separately for Goods, Services and Civil Works for wider public use</p> <p>(3) Preparation of Standard and uniform format for Procurement Plan to be widely used in all Government and Government owned organizations</p> <p>(4) Procurement Plan as proposed at the time of budget proposal must be owned and fully followed during the implementation and make it public within the month of Shrawan</p> <p>(5) Make Mandatory use of PPA / PPR in the government owned organizations</p> <p>(6) Make Mandatory provision for placement of Trained HR in all Procurement Units</p> <p>(7) Conduct wider consultation with stakeholders for PPA and PPR amendments.</p> <p>(8) Make provision of carrying out of public hearing of large procurement on sample basis (at least 5 numbers yearly). (ST/MT/LT)</p> <p>(9) Ensure the legal provision about the turn over and tax clearance through PPMO's web portal</p> <p>65) <b>Prepare and implement a comprehensive 'Public Procurement Enhancement Project' to strengthen overall public procurement management system by covering following action plans: (ST/MT/LT/IP)</b></p> <p>(1) Expand and strengthen the e-government procurement system from the stage of application of bid submission to the stage of contract award and certification of completion of contract. (MT)</p> <p>(2) Effectively implement the single portal of e-Procurement of GoN; (ST/IP)</p> <p>(3) Enhance public integrity and governance structure in PPMO and key sector agencies. (ST)</p> <p>(4) Enhance institutional capacity of the PPMO (as a credible procurement specialized agency) and initiate statistical monitoring of competitive and non-competitive bidding/procurements. (MT)</p> <p>(5) Enhanced public procurement monitoring with civic engagement among all</p>	PPMO, MDAs, FCGO, OAG	<p>Increase in bid submissions.</p> <p>Public hearing carried out in large procurements.</p> <p>Increase in the volume of competitive procurements.</p> <p>Availability of trained manpower.</p> <p>Improved procurement system of the government.</p> <p>Enforcement of procurement procedures for SOEs.</p>

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
			<p>stakeholders; of data with efficient use of time at the working levels of the agencies. (MT)</p> <p>(6) Prepare and implement regular( effective and extensive) training program for effective and efficient procurement management; (ST/MT/LT)</p> <p>(7) Establish a PPMIS (Public Procurement Information System) covering all the procurements linked to the data base of PPMO to monitor. (MT/IP)</p> <p>(8) Improved monitoring of the implementation of PPA;. (ST/IP)</p> <p>(9) Professionalized public procurement management capacity with sustainability. (MT)</p> <p>(10) Improve procurement performance of the key sector agencies. (ST/IP)</p> <p>(11) Prepare &amp; implement program of interaction with higher level political leaders, Secretaries, members of constitutional bodies, media persons, CSOs, Contractors, Consulting Firms, Parliamentarians, etc. on PPA, PPR, Guidelines, Procedures, processes, IT system, etc. (ST/MT/LT)</p> <p>(12) Conduct wider consultation with state owned business enterprises to develop and implement their own procurement procedures under PPA and PPR for further improvement of accountability, transparency, fair competition &amp; complaint mechanisms in procurement. (ST)</p> <p>(13) Establishment of Specialized Procurement Training Institution in the country (LT)</p>		
	<b>PI-20: Effectiveness of internal controls for non-salary expenditure. (Rating Score-C)</b>	<p>i. Expenditure commitment control procedures exist and are partially effective, but they may not comprehensively cover all expenditure or they may occasionally be violated. The OAG 2014 report states that 28 budget heads had expenditure above the allocation and this is 3% of fiscal year expenditure.</p> <p>ii. Other internal control rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those directly involved in their application. Some rules and procedures may be excessive, while controls may be deficient in areas of minor importance. Weak enforcement of internal control system to improve fiscal discipline and reduce fiduciary risks.</p> <p>iii. Under degree of compliance with rules for processing and recording transactions rules are complied with in a significant majority of transactions, but use of</p>	<p><b>66) Prepare &amp; implement comprehensive plan of action for reform of The Internal Control System of GoN:</b></p> <ul style="list-style-type: none"> <li>Implement reform plan for making standardization of internal control procedures or guidelines by FCGO. (MT/IP)</li> <li>Prepare internal control manual/guideline by all line ministries and implement for enhancing degree of compliance with rules for processing and recording financial transactions.(ST/MT/LT)</li> <li>Establish a system to reviews and disseminate the result of internal control activities as well as financial audit observations. (ST)</li> <li>Review the reconciliation system of bank accounts in government transaction and link its reporting with the performance evaluation of the DTCO chief and the concerned chief of the finance (PFM) section. (ST/IP)</li> <li>Increase the use of information generated through the FMIS and audit reports for improving control mechanism. (MT)</li> <li>Reform in present inventory management system by modernizing. (MT)</li> <li>Focus and use of ICT based information system for betterment of internal control system. (I)</li> <li>Replace manual or book-based Registration and Dispatch by computer softwareapplicationin all the DTCOs, spending units/offices. (MT)</li> <li>Segregation of duties and responsibilities in the processes of the budget expenditure management. (Clearly and with Time bound). (ST)</li> </ul>	<p>FCGO, Line Ministries</p> <p>OAG</p>	<p>Strengthened internal control system.</p>

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
		simplified/emergency procedures in unjustified situations is an important concern. The 2014 OAG reports cites several areas where controls have been circumvented in relation to: (a) compliance of law, (b) revenue leakages and control, (c) procurement, and (d) contract management.	<ul style="list-style-type: none"> <li>Initiate and strengthen IT audit system through institutional capacity building. (MT)</li> </ul>		
C (ii): Predictability & Control in Budget Execution (PI-13 to PI-21)	PI-21: Effectiveness of internal audit. (Rating Score-D+)	<p>i. The coverage of internal audit is 100%, but there is still a question on the quality of reports. Even if there is no clear set of professional internal audit standards, the internal audit manual covers many critical aspects of those standards. The focus on systemic issues is very little during internal auditing.</p> <p>ii. There is clear requirement that DTCO should audit every 4 months and distribute its reports. As per the requirement, reports are to be issued regularly for all government entities. But in practice, reports are issued annually but not trimasterly. The reports are submitted to the SAI but not to MOF.</p> <p>iii. The manager should respond to the recommendations of internal audit before the final audit by SAI. There is still a question about the relevance of responses.</p>	<p><b>67) Prepare &amp; implement a comprehensive plan of action for Internal Auditing System reform. (MT/IP):</b></p> <ul style="list-style-type: none"> <li>Update internal audit guidelines to focus &amp; improve both in compliance and systemic issues, and timely reporting (regularly) to concerned agencies. (ST)</li> <li>Pursue professional standards in audits. (MT)</li> <li>Review internal audit reporting format. (ST)</li> <li>Develop institutional mechanisms for addressing internal audit observation/suggestions with its vision. (e.g. audit committee, defining the role and duties of manager, recording the information of response, etc.). (MT)</li> <li>Conduct capacity development programs (advance, on-the job, tailored, refreshment trainings) by a PFM Training Institute to enhance capacity of internal auditors. (MT)</li> <li>Prepare and implement a manual to introduce risk based internal audit system. (MT)</li> <li>Establish a means for checking the sufficiency of internal control system. (ST)</li> <li>Prepare and implement the Code of Conduct for IA. (ST)</li> <li>Conduct feasibility study for initiating IT based internal auditing. (ST)</li> <li>Re-initiate consolidation of IA reports of government as a whole by the Internal Audit Section of FCGO and by MoFALD for local body. (MT)</li> <li>Identify and use different mechanisms for risk-based and performance based auditing by FCGO and MoFALD in selected areas. (ST)</li> <li>Develop a plan for improving monitoring of IA by FCGO and MoFALD for local body. (MT)</li> <li>Identify, separate and develop the cadre of internal audit. (MT)</li> <li>Implement the plan to strengthen the IA Section of all the DTCOs. (ST)</li> <li>Make annual internal audit reports public by the FCGO through its website. (MT). (Grouping from PI-10)</li> <li>Consolidate and prepare district level internal and financial audit report in district level and make sharing with its stakeholders. (MT) (Grouping from PI-10)</li> <li>Make legal provision of submission of annual internal audit reports to the Prime minister. (MT) (Grouping from PI-10)</li> </ul>	FCGO, DTCOs, MoFALD	Strengthened Internal Audit System.
C (iii)	PI-22: Timeliness and regularity of accounts	i. Bank reconciliation for all Treasury-managed bank accounts takes place less	68) Review the reconciliation system of bank accounts in government transaction and link its reporting with the performance evaluation of the concerned office chief and	FCGO, NRB, Other concerned	Improved system of bank accounts reconciliation.

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
	reconciliation (NR). (Rating Score-C+)	<p>frequently than quarterly OR with backlogs of several months. Reconciling differences in data between FCGO and NRB on transaction and account settlement take place long time.</p> <p>ii. Reconciliation and clearance of suspense accounts and advances take place at least annually within two months of end of period. Some accounts have un-cleared balances brought forward.</p>	<p>the finance section chief. (I)</p> <p>69) Upgrade and implement of CGAS in all spending units of GoN. (ST/MT/LT/IP)</p> <p>70) Enhance the monitoring system <b>in FCGO</b> of bank reconciliation of expenditures and revenue by full implementation of FMIS, TSA, CGAS and RMIS to improve timeliness &amp; regularity of reconciling differences of data. (ST)</p> <p>71) Identify and apply the <b>central system</b> of reconciliation <b>in two stages: (i) central bank of concerned commercial bank &amp; (ii) NRB.</b> (ST)</p> <p>72) Establish a mechanism to monitor the release of budget to SNGs and school accounts with the representative of DTCO. (MT)</p> <p>73) Upgrade the overall functioning and operation of Treasury Management Section of FCGO to plan for strengthening and to make applicable to federal government system. (ST)</p>	Banks & DTCOs District Education Offices	<p>Application of CGAS in all government spending offices.</p> <p>Strengthened treasury operation functions of FCGO.</p>
	PI-23: Availability of information on resources received by service delivery units. (Rating Score- A)	<p>i. Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.</p>	<p><b>74) Prepare &amp; implement an action plan for enhancing service delivery system in District Education Office (DEO) to School level units and District Health Office (DHO) to Health Centers: (MT)</b></p> <ul style="list-style-type: none"> <li>• Carry out mapping using Geographical Information system (GIS) for deciding school establishment and mergers. (MT)</li> <li>• Link Education Management Information System with GIS mapping through interface and interconnection. (MT)</li> <li>• Ensure sufficient resources and efficient human resources for financial management of GoN. (MT)</li> <li>• Prepare and provide a simplified handbook on financial management to schools. (MT)</li> <li>• Strengthen payroll mechanisms of schools and teachers and conduct monitoring and survey of the same. (ST)</li> <li>• Make Flash Reports of schools and health service more reliable and realistic. (ST)</li> <li>• Conduct National Assessment for Student Achievement (NASA) and Performance Audit of Schools and DEOs through Education Review Office (ERO) independently. (MT)</li> <li>• Create individual bank accounts of teachers and make salary payments through bank accounts. (ST)</li> <li>• Prepare and implement resource assessment mechanism for primary health centers by the Department of Health.</li> <li>• Make assurance of budget ceiling to the service delivery units of education and health sectors. (ST)</li> <li>• Establish one window system to overcome the challenges of overlapping the funds to service delivery units.(MT)</li> </ul> <p>75) Conduct expenditure tracking surveys every 2 year covering more districts by the FCGO or concerned agencies. (ST)</p> <p>76) Use web based Inventory Management System of District Health Office, service</p>	MOF, FCGO, MDAs (specially Education, Health, etc.), DTCOs, SNGs NPC	<p>Improved service delivery.</p> <p>Institutionalization on PETS.</p>



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			<p>centers to update records of income and expenditure of durable goods in the web site of Supply Management Division i.e. <a href="http://www.dohslmd.gov.np">www.dohslmd.gov.np</a>. (MT)</p> <p>77) Conduct (by MoHP) surveys on tracking of resources make available to the primary health centers. (ST)</p> <p>78) Awareness raising of civil society at the district, municipal, and VDC levels on the STA and expenditures by service delivery units. (ST/MT/LT)</p>		
C (iii): Accounting, Recording & Reporting (PI-22 to 25)	<b>PI-24: Quality and timeliness of in-year budget reports. (Rating Score-C+)</b>	<p>i. Synchronization of the BMIS and FMIS databases has enabled systems to generate budget execution data by functions, administrative and economic heads. The TSA helps to generate real time cash expenditure by all three categories. Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.</p> <p>ii. Reports are prepared (timely) quarterly or more frequently, and issued within 4 weeks of end of period. Mid-year budget review is done by MoF with timely mid-term review reporting with the help of FMIS and substantiated by field reports on implementation status of national priority projects.</p> <p>iii. There are some concerns about accuracy, but data issues are generally highlighted in the reports and do not compromise overall consistency/ usefulness of quality of information. Few issues of GFS classification that reports on recurrent of capital nature.</p>	<p><b>79) Prepare and implement an action plan for improving the quality and timeliness of in-year (mid-year) budget implementation reporting:</b></p> <ul style="list-style-type: none"> <li>Design and implement a computerized reporting system, linking financial progress with physical progress, for all the spending units which will interface &amp; link with CGAS. (MT)</li> <li>Prepare and implement a 'Project Database' comprising of data on approved projects, on physical and financial progress of project implementation and estimates of work-in progress, etc. It will improve project monitoring and reporting. (MT)</li> <li>Conduct a study on rest of the public fund reporting. (ST)</li> <li>Make the practice of commitment control reporting for the mid-year budget review on the basis of FMIS. (ST)</li> <li>Develop plan of action for reviving central level accounting and reporting system especially for the use of mid-year budget review and annual review of budget implementation. (MT)</li> </ul> <p>80) Revision of government accounting manual harmonized with the NPSAS. (MT)</p> <p>81) Improve the SOE (monthly) by adding expenditure of direct payment. (I)</p> <p>82) Establish a unit of cash projection and commitment control linked to MoF. (ST)</p> <p>83) <b>Establish</b> central database of public properties (assets) initiated by FCGO. (ST)</p> <p>84) Re-designate Statistic Section of FCGO for financial and statistical analysis with supervisory role over IT section. (ST/MT/IP)</p>	<p>MoF, FCGO, Line Ministries DTCOs</p> <p>Other public fund implementing agencies, PEFA Secretariat</p> <p>FCGO FCGO, OAG MoF, FCGO FCGO FCGO</p>	<p>Improved quality and timeliness of in-year budget reports.</p> <p>Availability of updated accounting manual. Strengthened cash planning &amp; commitment control. Reporting of public property (assets) on annual basis. Availability of analytical fiscal and financial information.</p>
	<b>PI-25: Quality and Timeliness of Annual Financial Statements. (Rating Score-C+)</b>	<p>i. A consolidated government statement is prepared annually. Information on revenue, expenditure and bank account balances may not always be complete, but the omissions are not significant. Requires consolidation of the transactions of controlled entities in part cash basis financial (NPSAS) which has not yet happened.</p> <p>ii. The Statements is submitted for external</p>	<p>85) Add the provision of accounting policy for improving the annual financial reporting in the accounting manual to disclose in the consolidated financial statements. (MT)+</p> <p>86) Add the provision of recording of non-cash transactions (direct payments, commodity grants or aid or turnkey projects) in the accounting manual to disclose in the government's financial statements. (MT)</p> <p>87) Make necessary arrangements for submission of consolidated financial statement within first trimester of next F/Y. (ST)</p> <p>88) Develop the manual of project accounts with a common use of formats regarding financial reporting and monitoring. (Donor Funded). (ST/IP)</p> <p>➤ Adopt and expand Nepal Public Sector Accounting Standards in other line ministries to</p>	FCGO, Line ministries	Improved quality and timeliness of annual financial statements.



PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
		<p>audit within 6 months of the end of the fiscal year.</p> <p>ii. Statements are presented in consistent format over time with some disclosure of accounting standards. However, the standard (NPSAS) is not used for preparing the AFS.</p>	<p>make reform in accounting system moving to IPSAS cash based accounting system, and implement the recommendations of Gap Analysis <b>in all spending units within one year. (ST/IP)-Grouping in PI-5 Action No. 18</b></p> <p>➤ Upgrade present FMIS and full utilization of FMIS for in-year and annual financial reporting in better quality and timeliness. (ST)</p> <p>➤ Rollout CGAS in all the spending agencies through wider trainings. (MT)</p> <p>89) Conduct capacity development programs for producing qualitative and timely annual financial statements from all the MDAs and DTCOs. (ST)</p>		
C (IV): External Scrutiny and Audit (PI-26 to PI-28)	PI-26: Scope, Nature and Follow-up of External Audit. (Rating Score-C+)	<p>i. Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of financial audits are performed and generally adheres to auditing standards, focusing on significant and systemic issues. In Nepal, external audit reports have substantially improved in quality and coverage, especially the FY13 OAG report. This report is a milestone in PFM reform; but there is room for improvement in the follow up of audit recommendations.</p> <p>ii. Audit reports are submitted to legislature within 9 months of end of period covered (for audit of financial statements from their receipt by the auditors).</p> <p>iii. Timely and evidence-based response is made though delayed or not very thorough and there is a regular mechanism for follow up but focused on clearing irregularities rather than focusing on system reform.</p>	<p><b>90) Prepare and implement an action plan for enhancing the final audit addressing to improve following subjects:</b></p> <p>(1) Trainings to auditors to develop capacity for risk-based and performance-based audit approach. (ST/MT/LT/IP)</p> <p>(2) Strengthen the follow up system through feedback to the audited entities on the previous years' audit observations &amp; their actions in the current year audit report. (ST/IP)</p> <p>(3) Establish a unit (Audit Committee) in all line ministries with assigned duties to settle the audit irregularities within stipulated time frame as per the existing legal provision. (ST/IP)</p> <p>(4) Conduct meetings and discussion programs to make clear of audit backlog of SOEs and other extra-budgetary funds. (MT)</p> <p>(5) Improve the mandate and legal provision to cover all the receipt and payment of the government by the audit. (STT)</p> <p>(6) Redefine the reporting mandate of presenting annual performance report and audit report. (MT)</p> <p>(7) Develop &amp; implement follow-up audit planning accompanied by an annual audit plan &amp; issue necessary format to collect information on settlement of audit observations. (ST/MT/LT)</p> <p>(8) Make legal provision that the Secretary (as a chief accounting officer) has authority to make clearance of irregularities with due investigation and recommendation. (ST)</p> <p>(9) Establish Regional Offices of OAG to facilitate the auditing and clearance of audit irregularities (observations). (ST/IP)</p> <p>(10) Review and update the existing Risk based and Performance Audit Guidelines/Manual. (ST/IP)</p> <p>(11) Review the audit reports of AGAs, PEs and other national agencies by OAG as a monitor. (ST/MT/LT) <u>Grouping from PI-9</u></p> <p>(12) Implement the ISSAIs (international standard for supreme audit institutions) based audit system to improve the quality of audit. (ST)</p> <p>(13) Introduce policy regarding corrective measures for the entities (non-auditing) which fail to submit the accounts for audit. (MT)</p> <p>(14) Effectively implement the existing Risk based, financial audit and Performance Audit Guidelines/Manual. (ST/MT/LT)</p> <p>(15) Develop the training facilities and train the auditors to develop professional capacity</p>	OAG	<p>Improvements in quality and timeliness of audit reports.</p> <p>Improve in follow-up of audit reports.</p> <p>Scrutiny of audit reports to be completed within 6 months upon submission of the reports to the legislature.</p>

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
			for audit. (ST/MT/LT) (16) Enhance relationship with stakeholders with proper communication. (MT) (17) Use ICT for audit documentation and follow up of audit report. (ST/MT) (18) Restructure the organizational set up to address the federal restructuring of the state. (ST/MT) (19) Study and develop procedures and system for audit of local level government. (MT/LT)		
	<b>PI-27: Legislative scrutiny of the annual budget law. (Rating Score-D)</b>	i. The legislature's review covers details of expenditure and revenue discussion & debates with no changes in allocations. The executives take into consideration genuine suggestions from the parliamentary debates without breaching the ceiling. ii. The legislature's procedures for budget review are well established by law. As there was no parliament during the assessed period, the budget was implemented through Presidential ordinance. iii. In the absence of a functioning legislature in FY 2013/14, this dimension does not apply. But, in the presence of the legislature adequate time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposal on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined). (NA) iv. Clear rules exist for in-year budget amendments by the executive, and are usually respected, but they allow extensive administrative reallocations.	91) Develop and conduct capacity development programs for strengthening oversight functions of the Parliament to carry out review of the fiscal policy, budgeting and expenditures control and audit reports. (ST/MT/LT) ➤ Prepare and implement Budget Management and Financial Responsibility Law. (MT)-related to action plan no. 3 of PI-1 92) In the budget preparation process, add a provision or an additional step regarding involve Parliamentarian in pre-budget meetings. (ST)	PAC, MOF	Established basis for legislative scrutiny of annual budget law.
	<b>PI-28: Legislative scrutiny of external audit report. (Rating Score-D)</b>	i. In the presence of Parliament, PAC does the scrutiny of audit reports, usually completed within 12 months from receipt of the reports. ii. Extent of hearings on key findings undertaken by the PAC. iii. Issuance of recommended actions by the PAC and implementation by the executive.	93) Prepare and implement institutional /capacity strengthening program of PAC and strengthen collaboration with OAG to ensure timely examination of audit reports. (MT) 94) Develop and implement a specific Operational Procedures for PAC. (MT) 95) Develop & execute a monitoring (independent) system to monitor the implementation of PAC recommendations and directives. (MT) 96) Review adequacy & reliability of audit system by peer review mechanism/by PAC. (ST)	Parliament, PAC, MOF, OAG	Established basis for legislative scrutiny of annual audit reports.
<b>Donor Practices:</b>					

PFM Areas	PFM Indicators	Key Issues of Assessed Dimensions	Actions	Responsible Agency	Expected Results/Benefits
D: Donor Practices (D-1 to D-3)	<b>D-1: Predictability of Direct Budget Support. (Rating Score-D+)</b>	i. In at least two of the last three years, DBS outturn fell short of the forecast by more than 15% ii. The Government can draw on budget support on the basis of reimbursement of expenditure with no other conditions attached prior to disbursement. The government has control over the amounts it will receive. Therefore, quarterly disbursement estimates was not required	97) Depute an officer to maintain records and reports in government system capturing the detailed forecasts or planned disbursement by donors as and when they are available and make donor reporting to the AMP mandatory. (ST) 98) Redesign the BMIS to record information on quarterly estimates of both the government and donor fund. (ST) 99) Redesign the FMIS to record the information on annual disbursement. (ST) 100) <b>Integrate</b> and ensure automatic data sharing among the AMP, BMIS and FMIS. (ST) 101) Allocate a separate budget code to identify the budgetary support flow donor-wise. (MT) 102) Effectively Implement Development Cooperation Policy. (ST) 103) Request to Donors to provide information on planned disbursements early in fiscal year. (ST)	MoF/FCGO	Improved predictability of donor assistance for direct budget support.  Transparent of external assistance.
	<b>D-2: Financial information provided by donors for budgeting and reporting on project and program aid. (Rating Score-C+)</b>	i. At least half of donors (including the five largest donors) provide complete budget estimates for disbursement of projects aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government's budget classification ii. Donors provide quarterly reports within one month of end-of-quarter on all disbursements made for at least 50 % of the externally financed project estimates in the budget, with a break-down consistent with the government budget classification.	104) Compulsorily report physical progress into AMP on trimester basis (MT/LT) 105) Encourage donors support through SWAp (Sector-wide approach) and budgetary support by utilizing AMP. (MT) 106) Expand adoption of Procurement Act by donors. (MT) 107) Use PFM Assessment Framework as tool to monitor progress with PFM performance. (MT) 108) Prepare and submit project account on time to ensure timely audit and submission of audit report to the donors. (ST/MT/LT) 109) Submit withdrawal application timely to reduce reimbursement due. (ST/MT/LT)	MoF/Donor	Creative use of AMP platform by Donors to provide financial information for budgeting and reporting.
	<b>D-3: Proportion of aid that is managed by use of national procedures. (Rating Score-C)</b>	i. 50 % or more of aid funds to central government are managed through national procedures	110) Upgrade systems to record the information of on-budget direct payments, i.e., direct payment uses through the national system. Direct funding directly implemented by the donors should not be mixed into on-budget direct payment. (ST) 111) Strictly implement Development Cooperation Policy, 2014 and ensure mandatory and timely reporting of the planned disbursement and actual disbursement into AMP and use of country system. (ST/MT/LT) 112) Prepare a ODA agreement template acceptable to the government and the Donor to channel all donor assistance through the Government's budgetary system.(MT) 113) Implement Aid Management Platform to ensure transparency and accountability of all development cooperation.(ST/MT/LT)	MoF/Donor	Increased in ratio of donor assistance in budgetary framework.

Note: There are some of the reform actions outside the PEFA framework which are included in Sub-Project wise action plan.